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# MACMILLAN

## Guide to Economics

Student's Book



MACMILLAN

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## Дорогие друзья!

Представляем Вам учебно-методический комплект (УМК) «**Macmillan Guide to Economics**», цель которого – помочь Вам приобрести навыки владения английским языком в области экономики и познакомить Вас с основополагающими темами экономической теории.

Из курса Вы узнаете, что изучают экономическая теория и эконометрика, в чём разница между микроэкономикой и макроэкономикой, какие экономические системы существуют в современном мире, как функционирует рынок и какую роль на нём играют спрос и предложение, какими особенностями обладает рынок труда, какие факторы производства используются в экономике, а также о монополии, общественных благах, экономике благосостояния, экономической политике государства, деньгах, инфляции и банках, процентных ставках и финансовых рынках, циклах деловой активности и многом другом.

Материал курса изложен в увлекательной форме, хорошим и доступным языком.

Книга для учащихся имеет чёткую организационную структуру: она состоит из двадцати одного урока, каждый из которых включает в себя два тематических текста, сопровождаемых аудиозаписями, активной лексикой, вопросами по теме урока, упражнениями и заданиями.

В курсе предусмотрены упражнения на развитие основных видов речевой деятельности – чтения, письма, аудирования и говорения. При этом форма отдельных упражнений меняется из урока в урок для того, чтобы избежать монотонности в обучении. Особого внимания заслуживают творческие задания на развитие навыков письменной речи. Освоив материал курса, Вы научитесь писать письма, статьи, эссе, сочинения, составлять доклады, отчёты, рекламные проспекты.

Данный курс – хорошая база для дальнейшего изучения английского языка в области экономики (английский для специальных целей – English for Specific Purposes (ESP)).

«**Macmillan Guide To Economics**» может быть использован как на аудиторных занятиях, в группах и при индивидуальном обучении, так и при самостоятельном изучении материала.

Мы желаем Вам больших успехов в изучении английского языка, а также в освоении актуальной экономической тематики, необходимой профессионалам во многих областях деятельности.

Л.К. Раицкая

Stuart Cochrane

# Unit 1

## Before you read

Discuss the following with your partner.

- Do you know much about economics?
- Tick which of these statements you think are true.
- Then explain to your partner why.

- |  |                          |
|--|--------------------------|
| 1 Economics is only the study of money.              | <input type="checkbox"/> |
| 2 Economics is something governments take care of.   | <input type="checkbox"/> |
| 3 An economist basically decides how money is spent. | <input type="checkbox"/> |



## Reading 1

### What does economics study?

What do you think of when you hear the word *economics*? Money, certainly, and perhaps more complicated things like business, inflation and unemployment. The science of economics studies all of these, but many more things as well. Perhaps you think that economics is all about the decisions that governments and business managers take. In fact, economists study the decisions that we all take every day.

Very simply, economics studies the way people deal with a fact of life: resources are limited, but our demand for them certainly is not. Resources may be material things such as food, housing and heating. There are some resources, though, that we cannot touch. Time, space and convenience, for example, are also resources. Think of a day. There are only 24 hours in one, and we have to choose the best way to *spend* them. Our everyday

## A Vocabulary

Match the words with the definitions.

- |                 |  |
|-----------------|--|
| 1 budget        | A the people who control a country and make laws   |
| 2 business      | B information  |
| 3 convenience   | C company that sells goods or services   |
| 4 data          | D easiness   |
| 5 demand        | E the amount of money you have for something   |
| 6 government    | F how much people want something   |
| 7 inflation     | G the number of people without work  |
| 8 resources     | H something such as money, workers or minerals belonging to an organisation, country, etc which can be used to function properly |
| 9 trade-off     | I rising prices  |
| 10 unemployment | J giving away something in exchange for something  |



lives are full of decisions like these. Every decision we make is a *trade-off*. If you spend more time working, you make more money. However, you will have less time to relax. Economists study the trade-offs people make. They study the reasons for their decisions. They look at the effects those decisions have on our lives and our society.

## What are microeconomics and macroeconomics?

Economists talk about *microeconomics* and *macroeconomics*. Microeconomics deals with people, like you and me, and private businesses. It looks at the economic decisions people make every day. It examines how families manage their household budgets. Microeconomics also deals with companies - small or large - and how they run their business. Macroeconomics, on the other hand, looks at the economy of a country - and of the whole world. Any economist will tell you, though, that microeconomics and macroeconomics are closely related. All of our daily microeconomic decisions have an effect on the wider world around us.

Another way to look at the science of economics is to ask, 'what's it good for?' Economists don't all agree on the answer to this question. Some practise *positive* economics. They study economic data and try to explain the behaviour of the economy. They also try to guess economic changes before they happen. Others practise *normative* economics. They suggest how to improve the economy. Positive economists say, 'this is how it is'. Normative economists say, 'we should ...'.

So what do economists do? Mainly, they do three things: collect data, create economic models and formulate theories. Data collection can include facts and figures about almost anything, from birth rates to coffee production. Economic models show relationships between these different data. For example, the relationship between the money people earn and unemployment. From this information, economists try to make theories which explain why the economy works the way it does.

## B Comprehension

Now read the text again and match each paragraph with the correct heading.

PARAGRAPH 1 .....

PARAGRAPH 2 .....

PARAGRAPH 3 .....

PARAGRAPH 4 .....

PARAGRAPH 5 .....

A How economists work

B Making deals every day

C Various ideas about economics

D Two areas of economics

E Two types of economist

## Before you listen

Discuss these questions with your partner.

- If you live in a modern economy, life is quite easy.
- Before the Industrial Revolution, life was much harder.
- In what ways was life more difficult?

## C Listening

Listen to someone talking about life before the Industrial Revolution. Which of these things are mentioned?

- |                   |                          |
|-------------------|--------------------------|
| 1 length of life  | <input type="checkbox"/> |
| 2 housing         | <input type="checkbox"/> |
| 3 illnesses       | <input type="checkbox"/> |
| 4 work            | <input type="checkbox"/> |
| 5 food            | <input type="checkbox"/> |
| 6 having children | <input type="checkbox"/> |

Now listen again and match the descriptions with the numbers.

- |  |             |
|--|-------------|
| 1 life expectancy  | A about 250 |
| 2 number of children who died before they reached five years old | B 1 in 10   |
| 3 number of women who died when they were giving birth           | C 26        |
| 4 years since the Industrial Revolution                          | D 1 in 3    |

## Before you read

Discuss these questions with your partner.

- Do you have any idea where the word *economics* comes from?
- Do you know the names of any famous economists from the past or anything about their ideas?

## D Vocabulary

Complete each sentence with a word or phrase from the box.

- abundance   ■ concept   ■ consumer
- firm   ■ Industrial Revolution   ■ population
- precious metals   ■ production process
- profit   ■ raw materials   ■ satisfaction
- scarcity

- 1 The ..... began in the late 18th century when machines started to replace human workers.
- 2 Sand and limestone are the ..... needed to make glass.
- 3 The ..... to make a car involves many people and machines.
- 4 The extra money a company makes is called .....
- 5 People want ..... from the products they buy.
- 6 ..... is when there is very little of something.
- 7 ..... is when there is lots of something.
- 8 Gold and silver are examples of .....
- 9 Another word for idea is .....
- 10 The ..... is the number of people a country has.
- 11 A business or company is sometimes called a .....
- 12 When we buy things or use services we are a .....



## Reading 2

# History of economic thought

Economic thought goes back thousands of years. The ancient Greek, Xenophon, used the word *oikonomikos* (from *oikos*, meaning *family, household, estate*, and *nomos*, for *usage, law*). He was talking about skilful or clever ways to manage land and households. We could call many of Aristotle's political writings *economics*, although he did not use the word. The English word *economics* first appeared in the 19th century - two and a half thousand years after Xenophon.

Early economic thought was all about the meaning of wealth or being rich. These early thinkers asked, 'what makes a state or a country wealthy?' For nearly 2,000 years, the answer was very simple: gold. A country or nation's wealth depended on its owning precious metals. This simple view of the economy remained until medieval times.

During medieval times - roughly the period between 1100 and 1500 AD, trading between nations grew, and a new social class appeared. These were merchants, people who made their money through the buying and selling of goods, and they began to write their own thoughts on the economy. They saw the economy as a way

to make the state strong. For them, the nation's wealth depended on stocks of gold and the size of the population. More people meant bigger armies and a stronger state.

These were still simple ideas. However, daily experience had also taught people many basic economic concepts. For example, they understood the importance of trade with other states. They realised that scarcity makes things more expensive and abundance makes them cheaper.

Modern economics was really born in the 19th century. At this time, thinkers like Adam Smith wrote down ideas that are still important today. Adam Smith is often called *the Father of Modern Economics*, although the science was called *political economy* then. Smith realised that a nation's wealth depended on its ability to produce goods. The value of these goods depended on the cost of production. The cost of production depended on the cost of workers, raw materials and land. This was really the first example of macroeconomics.

Smith and other classical economists were writing at a time of great change. The industrial revolution had begun. Paper money began to replace precious metals. The middle classes were growing stronger. Economists' theories echoed these changes. They wrote about the division of labour (each worker taking their part in the production process). They discussed the problems of population growth. They influenced thinking about social classes.

For classical economists, the value of goods depends on the cost of production. However, the price of goods is not always the same as their real cost. Later economists developed new theories to explain this *weakness* in classical economics. These are known as the *neoclassical* economists and they were writing at the end of the 19th and early 20th centuries.

In neoclassical economics, supply and demand make the economy work. In other words, the price of goods depends on how much people want them and how easily they can be found. Consumers want satisfaction from their resources (time and money). Firms want profit. In neoclassical economics, this is the basic relationship in the economy. These ideas are still the basis of economic thinking today.

## E Comprehension

Now read the text again and decide whether these statements are true or false.

- 1 Aristotle did not use the word *economics*, but he did write about economic ideas. T ☐ / F ☐
- 2 Early economists thought that a nation without gold was poor. T ☐ / F ☐
- 3 People in medieval times didn't understand anything about economics. T ☐ / F ☐
- 4 In classical economics, the value of something was measured in gold. T ☐ / F ☐
- 5 Economists later found a problem with the *classical* model. T ☐ / F ☐
- 6 In neoclassical economics, supply and demand control price. T ☐ / F ☐

## Before you listen

Look at this fact file about Adam Smith. Can you fill in any of the information?

- Born in Scotland in (1) .....
- Lost his father at the age of (2) .....
- Kidnapped at the age of (3) .....
- Went to University of Glasgow at the age of (4) .....
- Went to Oxford University at the age of (5) .....
- Most famous book is *The Wealth of* (6) .....
- Influenced Karl Marx and the founding fathers of (7) .....

## F Listening

Now listen and complete the information about Adam Smith's life.

## G Speaking

Discuss these questions with your partner.

- What use is the study of economics?
- What trade-offs do you make every day?
- How do the decisions we make affect the rest of the world?

### Task

Give a two-minute talk on the history of economic thought.

First, read text 2 again and make notes below on the following.

- early economic thinking
- the classical economists
- neoclassical economics

Notes:

### Pronunciation guide

Convenience /kən'vi:ns/

Data /'dɛtə/

Society /sə'saɪəti/

Behaviour /bɪ'hɛvjə(r)/

Abundance /ə'bʌndəns/

Scarcity /skeə'saɪti/

Xenophon /zenə'fɒn/

Aristotle /æ'rɪstɒtəl/

Medieval /'medɪ:vəl/

Precious /pre'ʃəs/

## H Writing

In this unit you learnt about Adam Smith, a famous 'thinker' from Scotland. Who are the most famous 'thinkers' from your country?

Work with a partner and decide which Russian thinkers have been most influential. Choose from the following: Kondratyev, Leontyev, Stolypin, Lenin.

### Magazine article

Write a magazine article about one famous thinker from Russian history. Use the guide to help you organise your article.

**TITLE:** .....

#### PARAGRAPH 1

Who is this thinker and what are they best known for?

#### PARAGRAPH 2

Biographical information: when and where born / family life / important points in life.

#### PARAGRAPH 3

What was his/her message?  
What were his/her influential thoughts?

#### PARAGRAPH 4

Why do you think this person is important?

Write 100-150 words



Stolypin



Kondratyev



Lenin



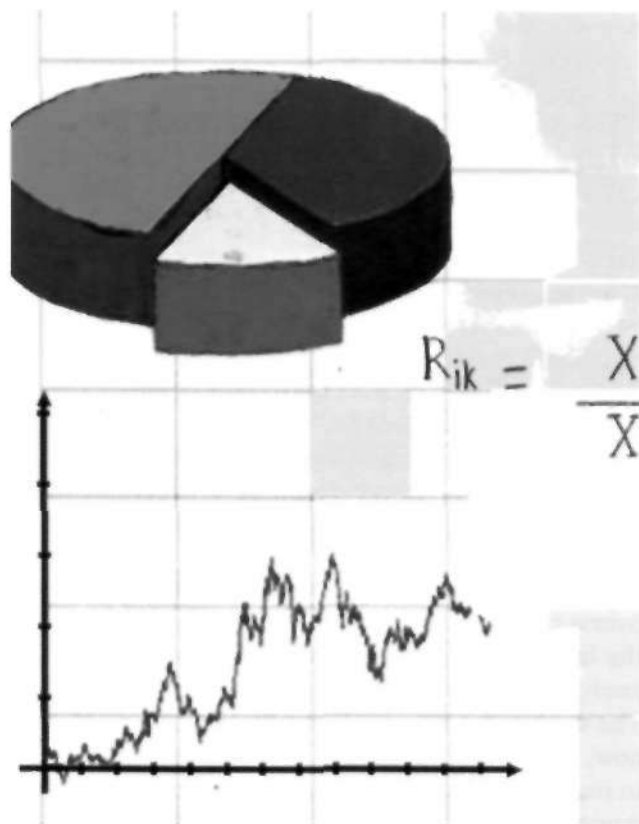
Leontyev

# Unit 2

## Before you read

Discuss the following with your partner.

- Econometrics is a term that economists use.
- Look at the word: *econo* + *metrics*
- What do you think it means?



## A Vocabulary

Choose the correct word.

- 1 Prices usually **increase** / **save** from one year to the next.
- 2 People work in order to **measure** / **earn** money.
- 3 My grandmother's only **income** / **salary** is her pension.
- 4 Einstein is famous for his **theory** / **analysis** of relativity.
- 5 The police search for **evidence** / **variables** to help them find the criminal.
- 6 If you **increase** / **combine** blue with red you get purple.
- 7 Government **statistics** / **evidence** show that crime is rising.
- 8 People **save** / **increase** their money in bank accounts.
- 9 You can use a ruler to **measure** / **earn** the size of things.
- 10 A person's **income** / **salary** is the money they earn each month from work.
- 11 His **theory** / **analysis** of the problem is very good.
- 12 In experiments, scientists try to find out what makes a **variable** / **evidence** change.
- 13 An expert in a subject who works and teaches at a university is known as an **individual** / **academic**.

## Reading 1

# Econometrics

Economists like to make theories. They theorise about why inflation happens, for example, or what causes unemployment. But theories are not useful if you cannot test them. This is true for all sciences, and the same for economics.

To test a theory, you first need to gather what scientists call *empirical* evidence. That's evidence that can be measured, like money spent or babies born. When you have collected the evidence, you're ready to do the maths and statistics to test your theory. Economists call their maths *econometrics*.

Let's take an example. Imagine that you want to find out why some people save more money than others. You may think that this depends on two things: how much money they earn (their income) and how happy they generally are about saving money. We can express your theory as an econometric formula:

amount someone saves = their income  $\times$  their happiness to save

Of course, we can't measure *happiness to save* exactly, but with econometric mathematics we can give it a value. Then we can see how that value differs between groups of people or cultures. Econometrics is about finding relationships between variables - in other words relationships between values that change. Economists try to find out if variable A changes every time value B changes. They want to find out if variable A is dependent on variable B. This is called analysis, and there are two main kinds of econometric analysis: *time-series* analysis and *cross-sectional* analysis.

Time-series analysis shows how variables change over a period of time. How salaries increased over the last century, for example. Cross-sectional analysis compares variables at one point in time. The salaries of men compared to women right now, for example. Of course, economists like to make things more complicated than that. Sometimes they combine cross-sectional with time-series analysis, and this is called *panel data* analysis.

As we said earlier, econometrics is good for testing economic theories. However, there is also a practical side to econometrics. The same maths and statistics are used by governments and business managers, as well as academics. Econometrics can help governments and companies find out how well they are doing. With the data from all this mathematics, they can make better decisions and plan better for the future.

## B Comprehension

Now read the text again and choose the best answer A, B or C to complete each sentence.

1 A theory is only good if you can ...

- A express it clearly.
- B test it.
- C measure it.

2 Empirical evidence is evidence that ...

- A we can see.
- B economists can't use.
- C can be measured.

3 Econometrics is ...

- A the maths that economists use.
- B a way to measure how much someone saves.
- C a formula to find out why people save.

4 Panel data analysis ...

- A only shows differences over time.
- B only shows differences between groups.
- C shows differences between groups and changes over time.

5 Econometrics is ...

- A only good for proving theories.
- B good for making practical economic decisions.
- C only good for academic work.

## Before you listen

Discuss the following with your partner.

The table below is an example of econometric data.

- What does the table show?
- Is this time-series analysis or cross-sectional analysis?
- What do you think are the missing numbers?

## C Listening

Weekly spending by children aged seven to fifteen in the UK

	Girls	Boys
sweets, snacks and food:	£ (1) .....	£4.60
clothing and personal care:	£ (2) .....	£1.30
mobile phone charges:	£ (3) .....	£0.40
magazines and books:	£0.90	£ (4) .....
music, DVDs and videos:	£0.70	£0.90
games and hobbies:	£0.90	£ (5) .....

Now listen to somebody talking about a survey of young people's spending habits. Fill in the gaps in the table.



# Before you read

Discuss these questions with your partner.

- Why do you think gold is expensive?
- What might be the reason that so many electrical goods are quite cheap now?

## D Vocabulary

Complete each sentence with a word from the box.

■ applies ■ available ■ confusing  
 ■ curve ■ demand ■ exception  
 ■ impressive ■ increase ■ law  
 ■ limited ■ set ■ shift ■ taxes

- 1 Some of the puzzles in this book are really .....
- 2 Newton's ..... of gravity explains why things fall towards the earth.
- 3 There is a lot of ..... for organic fruit and vegetables these days.
- 4 When you throw a ball, it follows a ..... back down to earth.
- 5 Gold is expensive because there is only a very ..... supply.
- 6 When a company stops making a product, it isn't ..... any more.
- 7 Normally I arrive at work at 8.00 am, but Thursday is an .....
- 8 This rule ..... to everyone in the school, even teachers.
- 9 Everyone who earns a salary must pay ..... to the government.
- 10 There has been a ..... in public opinion about the environment recently.
- 11 There has been a huge ..... in demand for air conditioners due to the hot weather.
- 12 Prices have been ..... too high and nobody can afford the goods.
- 13 I found the work you've managed to do very ..... Well done!



## Reading 2

# The law of demand

Economics can often be very confusing. Econometric formulas and impressive charts are sometimes impossible to understand. Thankfully though, some economic ideas are completely obvious. One of these ideas is the *law of demand*. Economists are always disagreeing with each other, but the law of demand is the only thing they all agree on. They all agree on it because it makes sense even to non-economists like you and me.

Demand is how much of the same good or service people would like to buy. The law of demand says that demand for something falls as its price rises. Economists show this concept with the *demand curve* which you can see in figure 1 on page 12.

The reason why the law of demand works is quite obvious: the money we have is limited. If something becomes more expensive, we will have less money available to spend on our other needs. If the product or service is not a necessity, we will decide to buy less of it.

Most rules have exceptions, but economists agree that there are very few exceptions to the law of demand. It even applies to basic necessities like water. When water becomes more expensive, people find ways to use less. When the government put higher taxes on petrol, people try not to use their cars so often. The fall in demand might be very small, but it is real.

So price has an effect on demand, but the strength of the effect varies. The strength of the price / demand relationship is called *price elasticity*. Economists use a simple econometric formula to measure price elasticity for a certain product in a particular market. This helps governments and companies set prices at the correct level for a particular time and plan price increases.

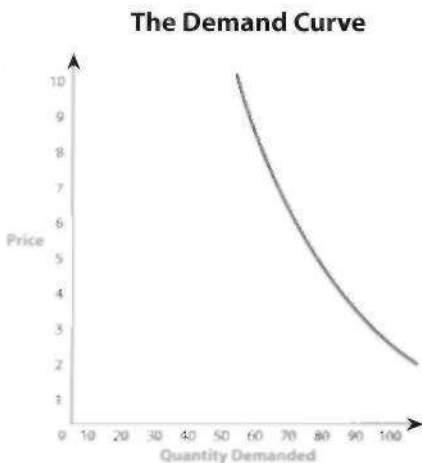
Don't forget, though, that other things affect demand apart from price. For example, during a very cold winter, demand for heating fuel like gas or coal will rise at any price. If the winter is unusually warm, then demand for fuel will fall. Economists say that these situations cause a *shift* in the demand curve. You can see this in figure 2.

In figure 2, the curve is still the same shape because price still has the same effect on demand. However, something else has caused a general increase in demand at all prices. A rise or fall in people's incomes, fashion, climate and many other things can influence demand in this way.

figure 1



figure 2



## E Comprehension

Now read the text again and decide whether these statements are true or false.

- 1 The law of demand is easy to understand. T ☐ / F ☐
- 2 The law of demand says that when people want more of something, its price rises. T ☐ / F ☐
- 3 There are no exceptions to the law of demand. T ☐ / F ☐
- 4 Price elasticity shows how much prices change when demand changes. T ☐ / F ☐
- 5 There are many reasons why people decide to buy something, not only price. T ☐ / F ☐
- 6 A shift in demand changes the shape of the demand curve. T ☐ / F ☐

## Before you listen

Discuss the following with your partner.

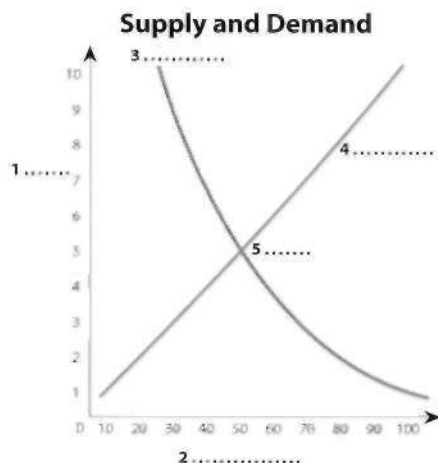
The graph below shows one of the basic relationships in economics: *supply and demand*.

- Talk about the graph with your partner.
- Can you label the diagram with the words from the box?

## F Listening

Now listen and check if you were right.

- Amount bought and sold
- Demand curve
- Equilibrium point
- Price
- Supply curve



## G Speaking

Discuss these questions with your partner.

- Apart from price, what other things affect demand for a product or service?
- If you were a producer, how would you react to increases, or the opposite - decreases in demand?
- What products or services are most in demand in your country now?

## Task

Give a two-minute talk on the relationship between demand and supply.

First, read text 2 again and look at the diagram for exercise F Listening. Then make notes on the following:

- the law of demand and the reasons for changes in demand
- the supply curve and the reasons for it
- how the market takes into account the needs of producers and consumers

### Pronunciation guide

**Econometrics** /iˌkɒnɒ'metrik/

**Variable** /veəriəbl/

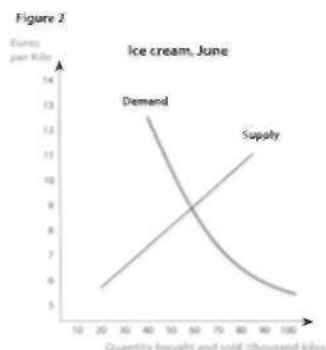
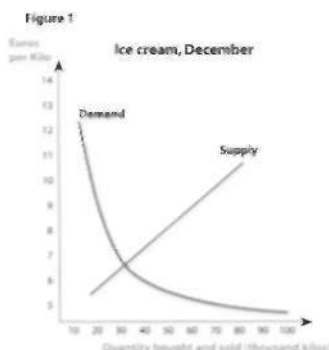
**Empirical** /ɪm'pɪrɪkl/

**Curve** /kɜːv/

**Necessity** /nə'sesəti/

**Elasticity** /iːlə'stɪsəti/

**Fuel** /fjuːl/



## Report

Now write a short report describing the information in the charts. Organise your report like this.

### PARAGRAPH 1

**Introduction.** Explain briefly what the charts are about and, very generally, what they show.

**Begin like this:** Both charts show demand and supply curves for ice cream. The charts also show ...

### PARAGRAPH 2

**The supply curve.** Describe the supply curve for ice cream. Explain the relationship between price and supply. Give example figures from the chart to illustrate your points. Note that the supply curve is the same for both months.

**Begin like this:** The supply curve for both December and June is the same. When production is low, the price ...

### PARAGRAPH 3

**The demand curve.** Describe the general relationship between price and demand. Give example figures from the chart to illustrate your points.

**Begin like this:** The charts also show that there is a relationship between demand for ice cream and price. Demand rises ...

### PARAGRAPH 4

**Shift in demand.** Describe the difference between the demand curve for December and June. Mention that the equilibrium point is higher in June than in December (give figures). Give reasons for the shift in demand.

**Begin like this:** However, there is a big difference between the demand curve for December and the demand curve for June ...

Write about 220 words

## H Writing

With a partner, look at the supply and demand charts for ice cream and answer the following questions together.

- What do the two charts compare?
- What happens to the supply of ice cream as price increases?
- What happens to demand for ice cream as price increases?
- What changes in June - supply or demand?
- Why do you think there is a shift in demand for ice cream in June?

# Unit 3

## Before you read

Discuss these questions with your partner.

Imagine a world without money.

- How do you think society would be run?
- Would there be an economy as we understand it?
- Can you think of any examples of situations where people don't use money, either from the past or now?
- Do you know what a traditional economy is?

## A Vocabulary

Choose the correct answer A, B or C from the list below.

- 1 Although we can buy meat in the shops, some people still like to ..... animals as a hobby.
- 2 ..... is another word for extra things that are not needed.
- 3 There are still ..... of people living traditional lives in the rainforests of South America.
- 4 In most modern societies, ..... like celebrations and dances have disappeared.
- 5 Corn and wheat are two ..... that farmers grow in their fields.
- 6 One of the ..... of playing sports is that you keep fit.
- 7 One of the ..... of living in a city is the noise.
- 8 Many African countries suffer from regular ..... when no rain falls for months.
- 9 Heavy rain causes ..... in many parts of Europe each year.
- 10 East Asian countries are well known for their ..... industries such as computers and cameras.
- 11 Exercises and sports at school are sometimes called ..... education.

- |                   |                 |              |
|-------------------|-----------------|--------------|
| 1 A chase         | B hunt          | C eat        |
| 2 A surplus       | B goods         | C shortage   |
| 3 A customs       | B tribes        | C pygmies    |
| 4 A parties       | B patterns      | C customs    |
| 5 A crops         | B animals       | C foods      |
| 6 A goods         | B disadvantages | C benefits   |
| 7 A drawbacks     | B benefits      | C customs    |
| 8 A floods        | B droughts      | C hurricanes |
| 9 A floods        | B droughts      | C hurricanes |
| 10 A agricultural | B heavy         | C technology |
| 11 A physical     | B mental        | C fun        |



## Reading 1

### The traditional economy

It's hard to imagine our lives without coins, banknotes and credit cards. Yet for most of human history people lived without money. For thousands of years human societies had very simple economies. There were no shops, markets or traders. There were no employers, paid workers or salaries. Today, we call this kind of economy the *traditional economy*, and in some

parts of Asia, South America and Africa this system still exists.

People who live in a traditional economy don't have money because they don't need it. They live lives of subsistence. That means they hunt, gather or grow only enough food to live. There is almost no surplus in the traditional economy, and there is almost no property. Families may own simple accommodation, but land is shared by all the tribe. Economic decisions are taken according to the customs of the tribe. For example, every family may need to give some of the crops they grow to the tribal leader, but keep the rest for themselves. They don't do this because it makes economic sense. They do it because the tribe has always done it. It's simply a custom.

Custom, also, decides what jobs people do in the traditional economy. People generally do the jobs that their parents and grandparents did before them. Anyway, there aren't many jobs to choose from in the traditional economy. Men are hunters, farmers or both. The woman's place is at home looking after children, cooking and home-making. This division of labour between men and women is another characteristic of the traditional economy. Whatever the work is, and whoever does it, you can be sure it's hard work. This is because traditional economies have almost no technology. Physical strength and knowledge of the environment are the tools for survival.

Like any other economic system, the traditional economy has its benefits and drawbacks. Probably the biggest benefit is that these are peaceful societies. People consume almost everything they produce and own practically nothing. They are equally poor. For all these reasons, war is almost unknown in these societies.

However, people who live in traditional societies are among the poorest people in the world. Because custom decides what people do, nothing in these societies ever changes. Because there is no technology, people depend on nature to survive. They have no protection from environmental disasters like droughts and floods. They are always in danger of hunger and disease.

But the traditional economy is in danger itself. There are only a few examples left on the planet. In 100 years from now, it may have disappeared forever.

## B Comprehension

Now read the text again and match each paragraph with the correct heading.

- PARAGRAPH 1 .....  
 PARAGRAPH 2 .....  
 PARAGRAPH 3 .....  
 PARAGRAPH 4 .....  
 PARAGRAPH 5 .....  
 PARAGRAPH 6 .....

- A Life without money  
 B The advantages of the traditional economy  
 C The future of the traditional economy  
 D The disadvantages of the traditional economy  
 E The importance of tradition  
 F Work in the traditional economy

## Before you listen

Discuss these questions with your partner.

- What kind of people do you think still live in a traditional economy today?
- Where do they live?
- What are their lives like?

## C Listening

Now listen and complete the notes about the Mbuti. Use one to three words for each gap. Then listen again and check your answers.

### Pygmies

Pygmies live in parts of Africa and  
 (1) .....

Pygmies are known for their  
 (2) .....

They live in societies that still have a  
 (3) .....

### The Mbuti

The Mbuti live in central (4) .....

They live in houses made from  
 (5) .....

(6) ..... do the hunting.

(7) ..... build houses.

(8) ..... look after the children.



## Before you read

Discuss these questions with your partner.

- Do you think most countries have a market which is free from government management?
- Can you think of any examples supporting or disagreeing with this idea?

## D Vocabulary

Complete each sentence with a word or phrase from the box.

- |               |            |                 |
|---------------|------------|-----------------|
| ■ advertise   | ■ afford   | ■ competition   |
| ■ controlled  | ■ costs    | ■ incentive     |
| ■ limit       | ■ prepared | ■ profit        |
| ■ reduce      | ■ role     | ■ street market |
| ■ theoretical |            |                 |

- 1 Every Saturday this road becomes the local ..... where people come to buy fruit and vegetables.
- 2 Businesses ..... their products in the media to attract more customers.
- 3 My ..... in the business is to meet customers and find out what they want.
- 4 Making money is the main ..... to work.
- 5 I bought this old camera for €50 and sold it for €75. That's €25 .....
- 6 If there's only one producer in the market, there's no .....
- 7 Production ..... are the amount of money companies spend to make a product.
- 8 The idea that life exists on other planets is ..... Nobody knows for sure.
- 9 A ..... economy is one where a government decides what can be bought and sold and/or how it is done.
- 10 The speed ..... on this road is 90 kilometres per hour.
- 11 When there is a demand we ..... prices but we ..... them if we want to sell something quickly.
- 12 I can't ..... that car – it's far too expensive.
- 13 People are ..... to pay a lot for services if they are of a good quality.



## Reading 2

# The market economy

Have you ever walked through a busy street market? People push their way through crowds of others in order to reach the stalls first. The air is full of deafening shouts. Stall owners yell to advertise their goods. Buyers cry out their orders. It's hard to imagine, but behind this noisy confusion is a very logical economic theory: the *market economy*.

The market economy is sometimes called the *free market*. A free market is not controlled in any way by a government. It is also free from the influence of custom or tradition. In a free market, the only reason why things are bought and sold is because there is a demand for them. Prices



for goods and services are simply what people are prepared to pay. The market economy is not really controlled by anyone. It controls itself.

The street market where we began has many of the characteristics of the free market. Customers arrive at the market with a shopping list of things they need. They also come with an idea of how much they are prepared to pay. Stall owners sell what customers demand, and try to get the highest price they can for it. Supply and demand control what is on the market and how much it sells for. In the wider economy, we are all customers, and the stall owners are like companies.

The role of the company in the free market is to supply what people want. However, companies need an incentive. The incentive is profit. There are two ways for companies to make a profit. The first way is to raise their prices. The second way is to reduce their production costs. And this brings us to two more features of the market economy: *competition* and *technology*.

Competition exists in a free market because, theoretically, anyone can be a producer. This means that companies have to compete with each other for a share of the market. Competition is good for consumers because it helps to control prices and quality. If customers aren't happy with a product or service, or if they can't afford it, they will go to a competitor.

Technology exists in a free market because producers need ways to reduce their costs. They cannot buy cheaper raw materials. Instead, they must make better use of time and labour. Technology is the use of tools and machines to do jobs in a better way. This helps companies produce more goods in less time and with less effort. The result: more profit.

People often think that most economies are free markets. However, at the macroeconomic level, a truly free market economy does not exist anywhere in the world. This is because all governments set limits in order to control the economy. Some governments set many limits, other governments set very few, but they all set some. For this reason, a true market economy is only theoretical. Nevertheless, many of the features of the market economy do exist in most societies today.

## E Comprehension

Now read the text again and answer these questions in your own words in the space provided below.

- 1 Who controls a market economy?
- 2 Who decides what products are for sale in a free market?
- 3 What do companies want?
- 4 Why is competition a good thing?
- 5 Why does technology exist in the market economy?
- 6 Why are there no true market economies in the world today?

Notes:

## Before you listen

Discuss these questions with your partner.

- Do you think the free market is a good idea?
- Is it good for society? Why / Why not?

## F Listening

Now listen and choose the correct answer.

**Adam Smith's invisible hand theory:**

- 1 People are naturally **selfish** / **helpful**.
- 2 The free market only demands what is good for **society** / **producers**.
- 3 When people work for their own good, they do good for **consumers** / **society** also.

**In the real economy:**

- 4 In the free market there is a demand for goods which are not **expensive** / **necessary**.
- 5 There is also demand for goods which are **good** / **bad** for us.
- 6 **The market** / **Advertising** can create demands that do not normally exist.

## G Speaking

Discuss these questions with your partner.

- Why do you think the traditional economy has almost disappeared?
- Would you like to live in a traditional economy? Why / Why not?

### Task

You are the leader of a scientific expedition to the forests of Central Africa. You spend six months living with the Mbuti. Give a short presentation about your expedition. Use the space below to make your notes.

Talk about:

- why you went
- why the Mbuti are important people to study
- what the environment is like
- the Mbuti lifestyle
- their economic system
- what we can learn from the Mbuti

Notes:

### Pronunciation guide

Surplus /sɜːpləs/

Incentive /ɪn'sentɪv/

Deafening /diːfɪnɪŋ/

Competitor /kəm'petɪtə(r)/

## H Writing

Write an essay comparing the traditional economy with the market economy. Discuss the advantages and disadvantages of each economy. Decide which is best in your opinion.

Remember, you should organise your ideas logically.

These phrases will help you: firstly, secondly, furthermore, however, on the other hand

### Discursive essay

#### PARAGRAPH 1

Introduce the subject by saying what a traditional economy is, and what a market economy is.

#### PARAGRAPH 2

Say what the advantages and disadvantages of the traditional economy are.

#### PARAGRAPH 3

Say what the advantages and disadvantages of the market economy are.

#### PARAGRAPH 4

Conclude by saying what you think the best system is.

Write 200-250 words



# Unit 4

## Before you read

Discuss the following with your partner.

You learnt about the free market economy in the last unit.

Can you think of any disadvantages it may have?

With your partner, see if you can think of any ideas for these points:

- advertising
- prices
- junk food

- |             |   |
|-------------|---|
| 10 ration   | J show  |
| 11 solution | K very quickly  |
| 12 hoard    | L money paid regularly for work done                            |
| 13 operate  | M answer to a problem   |
| 14 wages    | N a system which tells us that something bad is going to happen |

## Reading 1

### The planned economy

In many ways, the *planned economy* is the direct opposite of the market economy. In the market economy, the forces of supply and demand decide everything: what is produced, how much is produced, the methods of production and the price. In the planned economy, all of this is decided by the government. In every way that the market economy is *free*, the planned economy is *controlled*.

Unfortunately, no economic system is perfect. If there was a perfect system, economists wouldn't have anything to argue about! Market



## A Vocabulary

Match the words and phrases with the definitions.

- |                  |   |
|------------------|---|
| 1 commodity      | A when the government sets a limit on how much people can buy of something                          |
| 2 standard       | B when there is not enough of something   |
| 3 socialist      | C a strong metal made from iron   |
| 4 industry       | D something you can buy or sell   |
| 5 model          | E what is usual or typical  |
| 6 indicate       | F all the businesses and companies involved in the production of heavy goods, food, technology, etc |
| 7 warning system | G describes someone / something aiming to share wealth equally                                      |
| 8 shortage       | H secretly storing and hiding goods for use later   |
| 9 rapidly        | I work  |

economies have their strengths, but they have their problems, too. Planned economies try to provide solutions to these problems. For example, the free market supplies the things that people want. However, what people want and what they need are not always the same: Fast food is always in demand, but it's bad for us. In a planned economy, the government could decide to stop fast food restaurants operating in the market.

A second problem with free markets is that producers always want the highest price. Often the poor can't afford things. In a planned economy, the government sets prices. They make sure that everyone can afford basic commodities. This is one way that planned economies try to share things equally. Another is to control how much people get paid.

In a planned economy, workers' wages depend on the service they provide to society. If people can live without their service, you get paid less. This is very different from the free market. In the free market, someone's salary mostly depends on the demand for his or her work. If people like what you do, you get paid more.

Before 1900, there were few examples of planned economies. During the 20th century, however, the planned economy became the standard for socialist governments like the USSR and China. These countries experienced amazing economic growth in a very short time. In a market economy, it takes a long time for big industries to grow from small companies. In a planned economy, however, huge industries can grow overnight. The government simply decides to spend money on factories and factories appear. Britain, for example, took centuries to develop her steel industry in a free market economy. China developed hers in a few decades.

But, as we said, no economic system is perfect. The planned economy has many drawbacks. One of these drawbacks is problems with supply. It is difficult for governments of planned economies to know exactly how much to produce to meet demand. In a market economy, when the price of a commodity rises, this indicates a rise in demand. Companies then supply more to the market. This warning system doesn't work in a planned economy because price is controlled by the government. The result is shortages.

When shortages happen, governments can do two things: ration goods or raise prices. In this situation, people then start to hoard things, and the problem gets even worse. As the population gets bigger, shortages like this become more common. For this reason, China - once the world's biggest planned economy - is rapidly moving towards another system: the *mixed economy*.

## E Comprehension

Now read the text again and decide whether these statements are true or false.

- 1 In a planned economy, the government decides how products are made. T ☐ / F ☐
- 2 In a planned economy, suppliers can sell anything that is in demand. T ☐ / F ☐
- 3 In a planned economy, a doctor should get paid more than a footballer. T ☐ / F ☐
- 4 Planned economies grow more slowly than market economies. T ☐ / F ☐
- 5 In a market economy, greater demand for something makes it cheaper. T ☐ / F ☐
- 6 Planned economies are difficult to run in countries with large populations. T ☐ / F ☐

## Before you listen

Discuss this question with your partner.

- What everyday problems do you think people face in a planned economy?

## C Listening

Rita lives in a country with a planned economy. Listen to her talk about her life and the problems she faces. Tick the problems she mentions in the list below. Then listen again and check your answers.

- 1 food shortages ☐
- 2 low wages ☐
- 3 unemployment ☐
- 4 lack of career opportunities ☐
- 5 lack of luxury items ☐
- 6 high prices ☐

# Before you read

Discuss the following with your partner.

- Can you actually think of any examples of countries with a completely free market or a totally controlled one?
- Give any examples you can think of or say why you can't come up with any true examples.

## D Vocabulary

Complete each sentence with a word or phrase from the box.

■ agriculture ■ ban ■ efficiently ■ free enterprise ■ manufacturers ■ monopoly ■ private sector ■ profit motivation ■ public transport ■ state sector ■ telecommunications ■ trade

- 1 ..... is when businesses are able to trade without control from the government.
- 2 ..... industries belong to and are run by the government.
- 3 ..... industries belong to and are run by independent businesses.
- 4 Buses, trains and planes are examples of .....
- 5 ..... is another word for farming.
- 6 ..... produce new goods from raw materials.
- 7 When a business works ....., it runs successfully without wasting resources.
- 8 Telephone and Internet systems are part of the ..... industry.
- 9 ..... is what drives businesses in the market economy.
- 10 When the government puts a ..... on a commodity, people are not allowed to buy or own it.
- 11 If only one company controls part of the economy, they have a .....
- 12 When companies ....., they do business with each other.



## Reading 2

# The mixed economy

Most economists would say that there are no examples in the world today of a completely free market or a completely controlled economy. Instead, every country operates a mixture of the two systems. Even in the freest economies, like the USA, there is some government control; even in the strictest planned economy there is some free enterprise.

Economies mix government control and free market values in different ways. One way is to let privately owned businesses exist alongside state run industries. The economy becomes divided between the state sector and the private sector. The state sector often includes industries that the government thinks are important and need protection from the risks of the free market. These could include public transport, hospitals, schools and the postal service. The state sector can also include large industries that are important for a country's economic health, such as oil, steel or agriculture. These are sometimes called *primary industries* because they provide basic materials to manufacturers.

These state sector industries use money that the government collects in taxes. Often, they do not need to compete with other companies because no other company is allowed to provide the same product or service. However, many countries have recently started a process called *deregulation*.





Deregulation means freeing up the economy to allow private businesses to compete with state-run industries. The state sector should then run more efficiently in order to compete in the free market and because it now has less government protection.

Deregulation of services like telecommunications, transport and banking has happened in many countries in recent years. People have generally accepted these changes. However, generally the public is less happy when governments start talking about deregulation in education and health services. Many people feel that profit motivation will harm these services rather than improve them.

Another way in which economies today are mixed is that governments put limits on free enterprise. For example, governments may decide to ban trade in certain goods if they are dangerous. They may also create laws to make sure companies trade honestly or to prevent *monopolies*. If a company has a monopoly, normal market forces do not affect it. This is bad for consumers and the economy in general. Governments may also regulate methods of production. They do this to guarantee that products are safe for consumers and to protect the environment.

Many economists would argue that the mixed economy is the best system for consumers. This is because consumers have two ways to control the economy: by choosing to buy a company's goods or services and by choosing to give political parties their votes.

## E Comprehension

Now read the text again and answer the questions.

- What do most economists believe about economies in the world today?
  - There are a number of free markets.
  - Some countries have a completely planned economy.
  - A mixed economy exists in some way in all countries.
- Why do governments choose to run some industries?
  - So they can collect taxes.
  - Because they need to be protected from the risks of the free market.
  - To encourage a divided economy.
- Why do governments deregulate some industries?
  - To make the industries more efficient.
  - To protect them.
  - Because there is too much competition.
- According to the text, what is not very popular with the public?
  - Deregulation of public transport.
  - Deregulation of hospitals and schools.
  - Deregulation of telecommunications and banking.
- What type of state control is *not* mentioned in paragraph 5?
  - Controlling the way companies do business.
  - Controlling what companies sell.
  - Controlling the prices companies set.

## Before you listen

Discuss the following with your partner.

- Here is a list of arguments against state-run hospitals and arguments against private hospitals.
- Read the list and decide under which heading you think each one should go.

## F Listening

Now listen and check your answers.

- badly organised
- creates a class of poor, unhealthy people
- hospitals in bad condition
- hospitals will reduce costs to make money
- is bad for society in general



- 6 long waiting lists for patients
- 7 only the rich can afford health care
- 8 staff are poorly paid
- 9 taxpayers support everyone

Against state run hospitals	Against private hospitals

## G Speaking

Discuss these questions with your partner.

- Do people only work for money?
- What other motivation is there to work?

### Task

Work in groups of three. Each of you will take one of the following roles.

#### STUDENT A

You believe that the planned economy is best.

#### STUDENT B

You believe that the free market is best.

#### STUDENT C

You believe that a mixed economy is best.

Take turns to present arguments to support your ideas for the best economic system.

**Remember to include:**

- why the system is good for the economy
- why it is good for society

When each of you has presented his or her argument, have an open discussion.

## H Writing

Write an essay comparing the planned economy with the mixed economy. Discuss the advantages and disadvantages of each economy. Decide which is best in your opinion.

**Use these words and phrases to organise your ideas:** despite this, nevertheless, consequently, in contrast, similarly

Read texts 1 and 2 again and use these notes to help you. Write four paragraphs.

### Discursive essay

#### PARAGRAPH 1

What is a planned economy?

What is a mixed economy?

Introduce the subject by saying generally there are these two kinds of economies that have advantages and disadvantages.

#### PARAGRAPH 2

Describe a planned economy, explaining its advantages and disadvantages.

#### PARAGRAPH 3

Describe a mixed economy, explaining its advantages and disadvantages.

#### PARAGRAPH 4

Conclude by saying which system you think is best.

Or

Explain why you think neither system is the best.

Write 200-250 words

#### Pronunciation guide

**Commodity** /kə'mɒdɪti/

**Shortage** /ʃɔ:tɪdʒ/

**Hoard** /hɔ:d/

**Drawback** /drɔ:bæk/

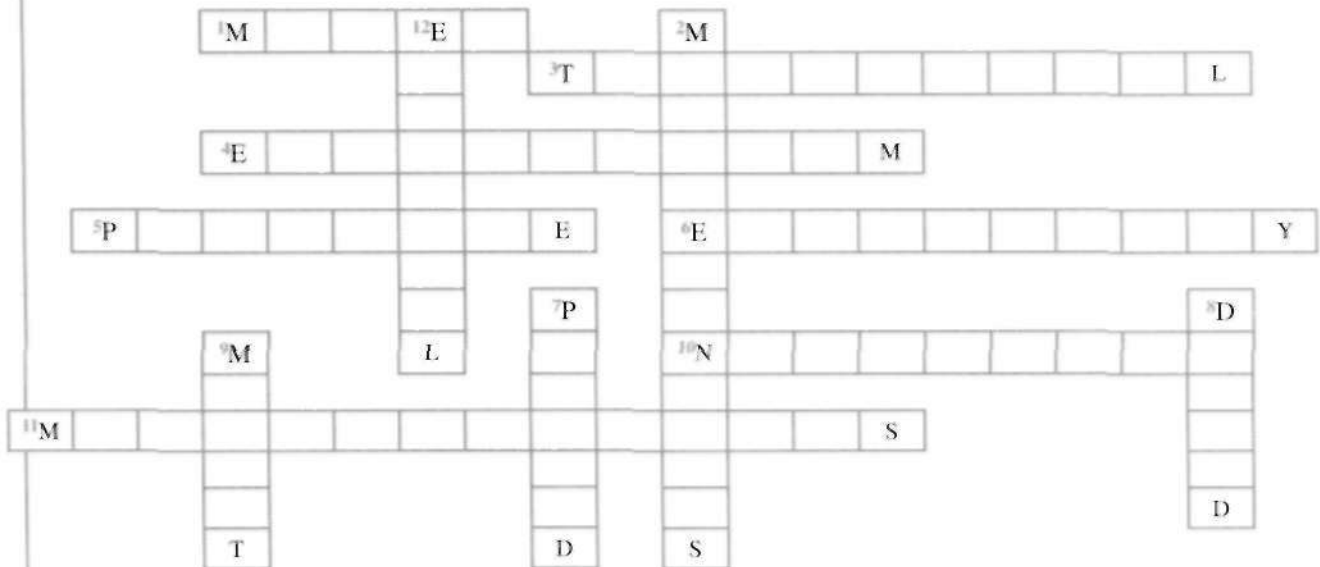
**Enterprise** /entəpraɪz/

**Deregulation** /di:regjuleɪʃn/

**Guarantee** /gæərənti:/

# Revision Vocabulary Units 1 to 4

**A** Complete the crossword. Some letters have been given to help you.



## ACROSS

- 1 This kind of economy is both planned and free market.
- 3 The first kind of economy that existed.
- 4 The point where demand and supply meet.
- 5 This kind of economics simply describes the economy.
- 6 A measure of how much demand influences price.
- 10 This kind of economics makes recommendations.
- 11 This kind of economics looks at the details of the economy.

## DOWN

- 2 This kind of economics looks at the whole picture.
- 7 In this economy, the government decides everything.
- 8 This falls as prices rise.
- 9 In this kind of economy, price is set by supply and demand.
- 12 Something that can be measured, like money spent or babies born.

**B2** Now write five example sentences using as many words as possible from this exercise.

**C** Complete the text with one word for each gap. The first letter has been given.

The traditional economy is the oldest form of economy. It has existed for thousands of years, although today it has almost disappeared. People in a traditional economy do not own (1) **p**..... They do not earn a (2) **s**..... and thus neither do they pay (3) **t**..... In fact, there is no money. They live on the raw (4) **m**..... that the forest provides them. They don't grow food or have any organised (5) **a**..... with farms and (6) **c**..... growing in fields. Instead, they (7) **g**..... wild fruit and vegetables or (8) **h**..... wild animals. They eat most of the food they find, and may (9) **h**..... some food for the winter, but they do not sell it. It's a difficult life. There are often (10) **s**..... of food when there is not enough to eat. When this happens, the (11) **t**..... must move on to another part of the forest.

**B1** Find six pairs of opposites.

- benefits ■ consumer ■ drawbacks
- drought ■ flood ■ manufacturer
- private sector ■ save ■ shortage
- spend ■ state sector ■ surplus

# Unit 5

## Before you read

With your partner discuss how you make choices about what you are going to buy. Think about:

- budget
- the price
- satisfaction with the goods

Figure 1: Budget Line

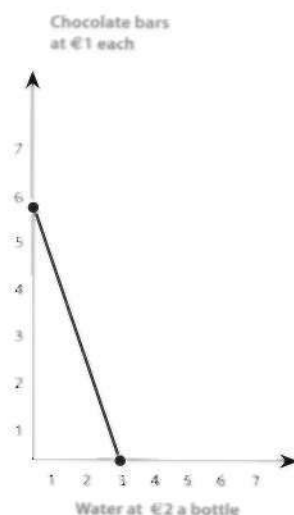
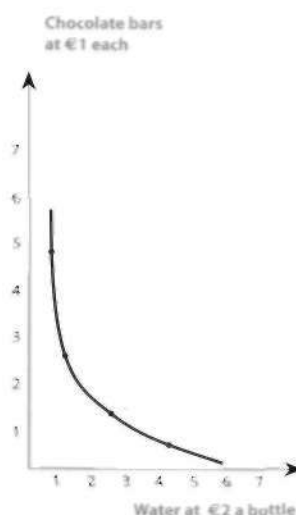


Figure 2: Indifference Curve



## A Vocabulary

Choose the correct word or phrase.

- 1 If you are in a hurry, it can be difficult to make a **maximum** / **rational** decision.
- 2 The amount of money you have to spend is your **budget constraint** / **deciding factor**.
- 3 The **maximum** / **rational** speed limit on this road is 120 kilometres per hour.
- 4 Quality is often the **deciding factor** / **budget constraint** when people choose something to buy.
- 5 Some people **calculate** / **assume** how much they spend every week.
- 6 Green is a **combination** / **an alternative** of yellow and blue.
- 7 When you buy something from a shop, you make a **purchase** / **budget constraint**.
- 8 When you **calculate** / **assume** something is true, you guess that it is true.
- 9 The use or satisfaction you get from something you buy is called **utility** / **purchase**.
- 10 Olive oil is a healthy **alternative** / **combination** to butter.

## Reading 1

### Consumer choices

It's a hot summer day. You've been out walking all morning and you're getting thirsty. It's also about lunchtime, and you're feeling pretty hungry, too. What luck! Here's a kiosk selling snacks. You've got six euros to spend. You can buy bars of chocolate or bottles of water ... or a combination of both. Now you've got another problem: *consumer choice*.

If you're a *neoclassical economist*, however, there's nothing to worry about. Neoclassical economists believe that consumers make rational choices. Before a consumer buys something, they think about the cost and the amount of satisfaction the purchase will give them. They then compare the price and satisfaction of possible alternative purchases. In the end, they buy what gives them maximum satisfaction at the lowest cost.

So, what will you buy from the kiosk? An important deciding factor is the amount you have to spend. Economists call this your *budget constraint*. Your total budget is six euros. Bottles of water are two euros each, chocolate bars are

one euro each. You could buy three bottles of water, or you could buy six chocolate bars. Or, you could buy any combination that adds up to your total budget. We can put all of this information on a budget line, like the one in figure 1. The budget line shows what combinations of goods are possible. Economists call these combinations of goods *bundles*. But which is the best bundle? This depends on something called *utility*. Utility is the economists' word for the satisfaction we get from a purchase. Each good has its own utility value for the consumer. The utility of a bundle depends on two things: the utility of the goods in the bundle, and how much of each good is in the bundle. Figure 2 on page 25 shows the bundles of chocolate and water that give the same level of utility. This kind of chart is called an indifference curve. Any point on the curve has the same utility value as any other point. For example, two bottles of water and two chocolate bars has the same utility as one bottle of water and four chocolate bars.

In figure 2, we assume that chocolate and water have the same utility value for the consumer. But if water had a higher utility value than chocolate, the curve would be a different shape. Many things can affect the utility of a good. These include the cost of the good, the consumer's income and something called *marginal utility*.

To understand marginal utility, just think about chocolate bars. Every time you consume a bar of chocolate, the satisfaction you get from the next bar will be less. In other words, you get less utility every time you eat another bar. This decrease in utility is called the marginal utility. The marginal utility is the one of an additional item. For example:

Bars of chocolate	Marginal Utility	Total Utility
0	-	0
1	10	10
2	9	19
3	8	27
4	7	34

Put very simply, budget, price and level of utility will all affect your choice at the kiosk. The neoclassical theory of consumer choice says that it is possible to calculate demand for products if we know this kind of information. However, not all economists agree!

## B Comprehension

Now read the text again and answer the questions.

- According to neoclassical economists, what do consumers want?
  - The most satisfaction at the lowest cost.
  - The cheapest product.
  - To spend all their money.
- What is budget constraint?
  - An amount of money you want to save.
  - A combination of money and satisfaction.
  - The total amount of money you have to spend.
- What is utility?
  - How much of a product you get.
  - The satisfaction you get from a product or service.
  - The cost of a product.
- What explains marginal utility?
  - The more satisfaction something gives you, the more you want it.
  - The more satisfaction something gives you, the less you want it.
  - The more you have of something, the less satisfaction it gives you.
- What do neoclassical economists believe about consumers?
  - They make logical decisions.
  - They always know what they want before they go shopping.
  - They don't know what they want.

## Before you listen

Not all economists agree with the theory of consumer choice described in the text. Here is a list of reasons why. Complete each sentence with a word from the box.

## C Listening

- advertising ■ constraints  
■ information ■ mistakes ■ rational

- Consumers are not always .....
- Consumers often don't have enough .....
- Choices are affected by .....
- Consumers make .....
- Budget ..... may not guide consumers' choice.

Now listen and check your answers.

## Before you read

Discuss this question with your partner.

- What do you think a company has to spend money on? Make a list of your ideas.

## D Vocabulary

Complete each sentence with a word or phrase from the box.

- |             |                  |                |
|-------------|------------------|----------------|
| ■ interest  | ■ keep track of  | ■ loan         |
| ■ maintain  | ■ minus          | ■ nasty        |
| ■ part-time | ■ rate           | ■ relationship |
| ■ revenue   | ■ the short term |                |

- 1 I ..... what I spend by writing everything down in a notebook.
- 2 There is a ..... between the quality of a product and its cost.
- 3 A company's total ..... is all the money it receives from sales.
- 4 ..... is the next few weeks or months. The long term may be the next years or decades.
- 5 Five ..... three is two.
- 6 Factories have to ..... their machines to keep them working properly.
- 7 A ..... worker works for only a few hours a day or a few days per week.
- 8 When someone or something is ....., they aren't nice at all.
- 9 If you borrow money from a bank, you have to pay it back with an extra charge which is called .....
- 10 When somebody lends money, they are giving a .....
- 11 The ..... at which something happens is how fast it occurs.



Figure 3: Constant return to scale

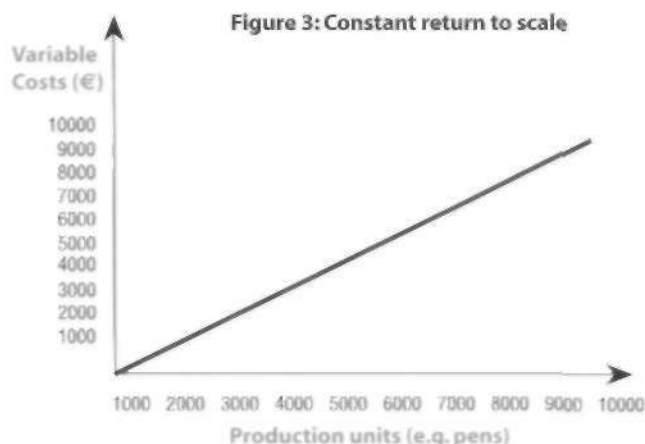
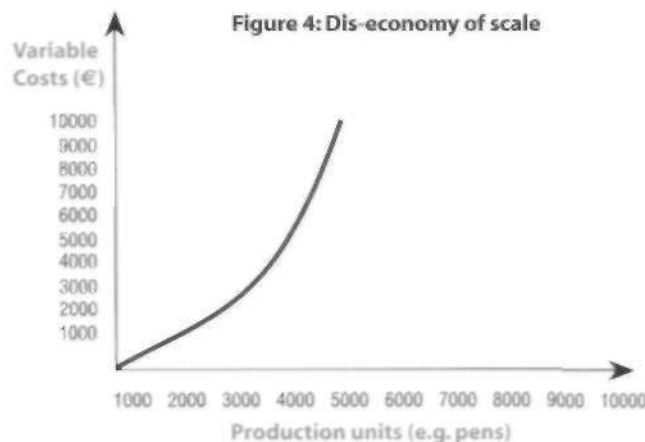


Figure 4: Dis-economy of scale



## Reading 2

# Costs and supply

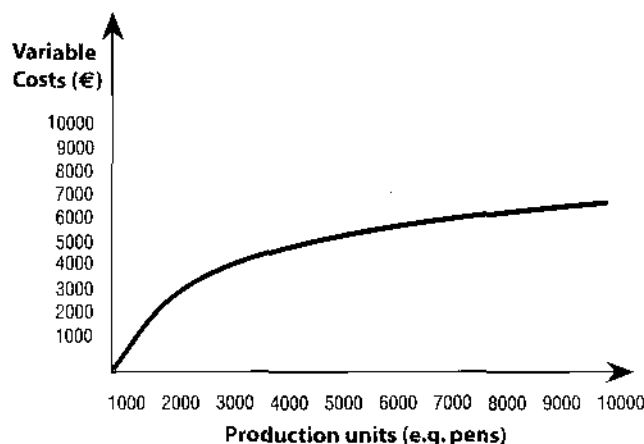
Companies have to spend money in order to make money. The money they spend to manufacture their goods or provide their services are called *costs*. Costs are important. Any company that doesn't keep track of costs will soon be in trouble. And there are many different kinds of costs to keep track of such as *fixed costs* and *variable costs*.

Why are costs important? Well, for two reasons: Firstly, there is a relationship between costs and *profit*. Profit is overall revenue minus costs. Secondly, there is a relationship between costs and *supply*. To understand this relationship, we need to look at some types of cost.

One type is *fixed costs*. Fixed costs are costs that don't change. They are costs that the company has to pay each month, for example, or each year. The value of fixed costs will not rise or fall in the short term. Examples include the rent the company pays, the interest they have to pay each month on any loans and the salaries they have to pay for permanent employees. The good news about fixed costs is that they don't change with increases in production. For example, imagine a company produces 1,000 pens in January and 2,000 pens in February. The rent for the factory remains the same for both months. *Variable costs*, however, change (vary) with the size of production. The more pens the company produces, the more these costs increase. Examples of variable costs are the raw materials needed for production, the cost of electricity and the cost of maintaining machines that are working more. Also, the company may need to get more part-time employees. Their hourly pay is another variable cost. In unit 1 we said that the price of a product or service increases as supply increases. Variable costs are the reason why.

In a perfect world, variable costs will increase steadily as production increases. This is called *constant return to scale* and it is shown in figure 3 on page 27. However, this is not a perfect world! Sometimes, variable costs rise at a faster rate than production. This nasty situation, which is called a *dis-economy of scale*, is shown in figure 4 on page 27. On the other hand, companies sometimes get lucky. Variable costs can rise at a much slower rate than production. This is called an *economy of scale*, and is shown in figure 5 below.

Figure 5: Economy of scale



## E Comprehension

Now read the text again and answer these questions in your own words in the space provided below.

- 1 What are costs?
- 2 Why are costs important?
- 3 What are fixed costs?
- 4 What are variable costs?
- 5 Why is an economy of scale good?
- 6 Why is a dis-economy of scale bad?

Notes:

## Before you listen

Discuss the following with your partner.

- Price is not only the cost of something. Every purchase has a hidden cost. What do you think this is?

## F Listening

You're going to hear about another kind of cost called *opportunity cost*. Listen and choose the best answer for each question. Then listen again and check your answers.

- 1 What is opportunity cost?
  - A Something you have to give up in order to have something else.
  - B Something a company can charge people for goods or services.
  - C Something that companies pay when they first start business.
- 2 What could be the opportunity cost of watching television?
  - A Getting sore eyes.
  - B The cost of buying a television.
  - C Not sunbathing in the garden.
- 3 What is the opportunity cost for Alice's decision?
  - A £3,000
  - B £39,000
  - C £13,000



## G Speaking

Discuss these questions with your partner.

- How do you make decisions about what to buy?
- Do you think people make rational decisions?  
Why / Why not?

### Task

Imagine you are the manager of a small manufacturing business (you decide what the company makes). Give a short talk to your employees explaining what the company's costs are.

First, read the texts again and make notes on the following:

- fixed costs
- variable costs
- Does your company have an economy of scale?

Notes:

### Pronunciation guide

Utility /juːtɪləti/

Marginal /mɑːdʒɪnəl/

Revenue /revənjuː/

Employee /ɪmˈplɔɪi/

Constraint /kənˈstreɪnt/

## H Writing

You're the librarian at your school. The head teacher has asked you to buy some more materials for the library. You can choose from the following.

- books, including fiction for teenagers, poetry, special interest and hobby books (£10 each)
- magazine subscription for one year (either a music magazine or a fashion magazine) (£50)
- educational CD-ROMs for science, history and technology (£20 each)
- a set of encyclopaedias (£100)

Your budget constraint is €200.

### E-mail to your head teacher

Write an e-mail to your head teacher explaining the budget constraints you have. Tell him or her what you want to buy and why.

#### PARAGRAPH 1

Explain why you're writing.

**Useful words and phrases:**

Dear ... , I'm writing in order to

#### PARAGRAPH 2

Explain your budget constraints and the costs of materials.

**Useful words and phrases:**

Our current budget constraint is...

There are a range of materials that we could buy. These include...

#### PARAGRAPH 3

Say how you intend to spend the money.

**Useful words and phrases:**

After careful consideration, I think the best purchases would be...

#### PARAGRAPH 4

Give reasons why you have chosen to spend the money in this way.

**Useful words and phrases:**

I have chosen, because, would be a good purchase because, would be very useful for, first, next, in addition, finally

Sign off in a polite way

Write 100-150 words

# Unit 6

## Before you read

Discuss the following with your partner.

Here are some things that affect how a market operates. How important do you think each one is?

- the size of companies
- what products and services are like
- what information consumers and companies have about products
- ease of entry into the market for companies
- companies having the resources and technology they need

- 11 The ..... point is where two things are balanced against each other.
- 12 Honey is a healthier ..... for sugar to make things sweet.
- 13 Everyone should have ..... to education.

- |                  |             |                |
|------------------|-------------|----------------|
| 1 A shape        | B structure | C building     |
| 2 A piece        | B part      | C market share |
| 3 A scale        | B point     | C grade        |
| 4 A good         | B better    | C perfect      |
| 5 A is           | B live      | C exist        |
| 6 A pure         | B good      | C clean        |
| 7 A similar      | B identical | C same         |
| 8 A gate         | B barrier   | C block        |
| 9 A barrier      | B close     | C block        |
| 10 A shopping    | B trading   | C selling      |
| 11 A equilibrium | B middle    | C equal        |
| 12 A difference  | B addition  | C substitute   |
| 13 A access      | B openings  | C entrance     |



## Reading 1

### Market structure and competition

When economists talk about *market structure* they mean the way companies compete with each other in a particular market. Let's take the market for pizzas, for example. There may be many thousands of small companies all trying to win a share of the pizza market, or there may be only one huge company that supplies all the pizzas. These are two very different market structures, but there are many other possible structures. Market structure is important because

## A Vocabulary

Choose the correct answer A, B or C from the list opposite.

- 1 Companies usually have a ..... with senior managers at the top and employees at the bottom.
- 2 McDonald's has a very big ..... of the fast food market.
- 3 Some teachers mark students' work using a ..... from A to E.
- 4 No one's work is ..... We all make mistakes.
- 5 A perfect economic system may never .....
- 6 A ..... monopoly means an absolute or complete monopoly.
- 7 Not all twins are ..... Some twins are brother and sister, for example.
- 8 Sometimes a person's colour or race can be a ..... to getting work.
- 9 We use curtains to ..... light.
- 10 Countries have been ..... with each other for thousands of years.

it affects price. In some market structures, companies have more control over price. In other market structures, consumers have more control over price.

You can think of market structure as a kind of scale. At one end of the scale is *perfect competition* and at the other end is *pure monopoly*. In a market with perfect competition, there are many companies supplying the same good or service, but none of them are able to control the price. This sounds fine, but in reality it is very difficult for such a market structure to exist. What's needed?

First of all, there must be many small companies competing. Each company has its own small share of the market. If one company has a much larger share than any other, it can affect price, and perfect competition will no longer exist.

Secondly, products or services from different companies must be the same. This doesn't mean that everything on the market has to be identical, but they have to be perfect substitutes. In other words, one company's product must satisfy the same need as another company's. Imagine a company produces a television that also makes tea. Its product is different from everyone else's. If it chooses to raise the price of its TVs, customers may still want to buy them because of this difference.

Thirdly, customers and companies must have perfect and complete information. This means that they know everything about the products and *prices on the market and that this information is correct*.

Fourthly, there mustn't be any barriers to new companies entering the market. In other words there must not be anything that helps one company stay in the market and blocks others from trading.

Finally, every company in the market must have the same access to the resources and technology they need.

If all of these conditions are met, there is perfect competition. In this kind of market structure, companies are *price takers*. This is because the laws of supply and demand set the price, not the company. How does this work? Very simply! An increase in demand will make a company increase its price in order to cover costs. It might try to push its prices even higher than necessary so that it can

make more profit. However, it will not be able to do this for very long. The increase in demand and the higher price will make other companies want to enter the market, too. This will drive the price back down to *equilibrium*.

## B Comprehension

Now read the text again and decide whether these statements are true or false.

- 1 Market structure describes how competitive a market is. T ☐ / F ☐
- 2 Perfect competition and pure monopoly are opposites. T ☐ / F ☐
- 3 Four conditions are necessary for perfect competition to exist. T ☐ / F ☐
- 4 In perfect competition, every company makes a slightly different product. T ☐ / F ☐
- 5 Perfect competition makes it easy for new companies to start trading. T ☐ / F ☐
- 6 When there is perfect competition, companies are able to set any price they want. T ☐ / F ☐

## Before you listen

Discuss the following with your partner.

- Perfect competition is really only an idea. It almost never happens in the real world. Why do you think this is? Can you think of any market that has perfect competition?

## C Listening

Now complete each sentence with words from the box. Then listen and check your answers.

- a monopoly
■ a monopsony
- an oligopoly
■ imperfect competition

- 1 Any market structure apart from perfect competition is called .....
- 2 ..... is when there is only one seller of a good or service.
- 3 ..... is when only a small number of sellers control the market.
- 4 ..... is when there is only one buyer in the market for a product or service.

## Before you read

Discuss these questions with your partner.

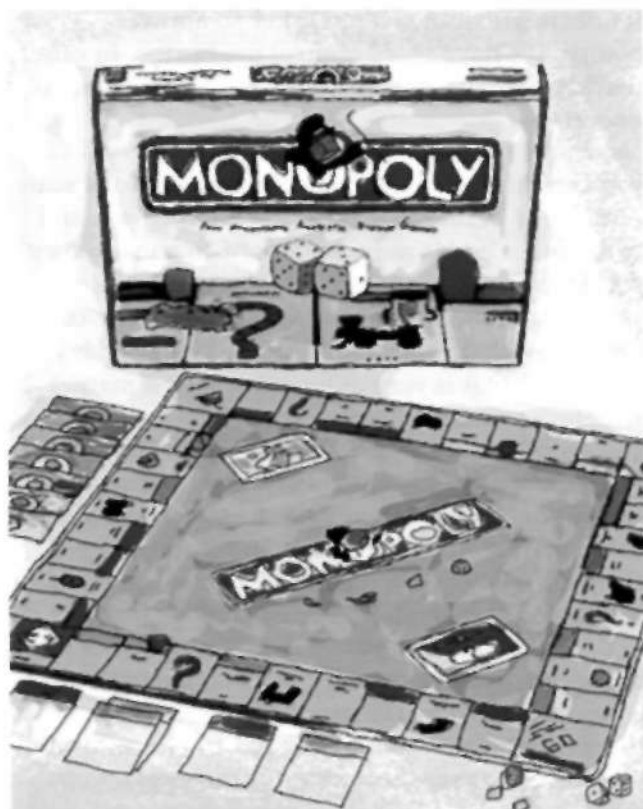
- Can you think of any reasons why there are monopolies?
- Do you think monopolies have advantages as well as disadvantages?

## D Vocabulary

Complete each sentence with a word from the box.

- |              |            |             |
|--------------|------------|-------------|
| ■ aggressive | ■ cables   | ■ illegal   |
| ■ innovation | ■ legal    | ■ naturally |
| ■ network    | ■ occurs   | ■ printing  |
| ■ publishing | ■ takeover |             |

- 1 A ..... is a set of connections.
- 2 When one company gains control of another company it is called a .....
- 3 Raw materials are things like wood or oil that exist .....
- 4 Electricity travels along ..... to reach our houses.
- 5 ..... people get what they want by violence and force.
- 6 ..... companies are responsible for the writing and pictures in books, etc.
- 7 ..... companies make books.
- 8 ..... is inventing and thinking of new solutions to problems.
- 9 If something is ....., it is allowed by law.
- 10 When something is ....., it is not allowed by law.
- 11 If a problem ....., you will have to deal with it.



## Reading 2

# Monopolies

In a monopoly, one company has a much larger market share than any other company. In fact, their share is so big that other companies cannot really compete. When there is a monopoly, the normal laws of supply and demand do not always work. Monopolies come in different kinds, but a *pure monopoly* is when there is only one company in the market providing a particular product or service. This situation, in fact, is the exact opposite of *perfect competition*. How do pure monopolies happen?

Some monopolies occur naturally. This happens when a company manages to create an *economy of scale*. An economy of scale is when variable costs of production increase more slowly than increases in supply. Every company would like to be in this situation. Unfortunately, it's not easy to achieve. Economies of scale are possible for companies which need a lot of money to set up but much less money to run.



A telephone company is a good example. Telephone companies have to spend millions of pounds laying cables. However, once they have made the network, running the system does not cost so much. Any other company that wants to compete will have to make their own network. Not surprisingly, not many bother!

However, the world of business is a jungle, and there are more aggressive ways to create a monopoly. One of these is by making *takeovers*. This means that a more powerful company buys a smaller one in the same industry. Takeovers happen vertically or horizontally. In a *vertical takeover*, a company buys companies that supply it with materials or services. For example, a publishing company might buy a printing business. In a *horizontal takeover*, a company buys its competitors. The competitors then become part of the first company.

One final way a monopoly occurs is for the government to make it happen. This is called a *legal monopoly*, but not because other monopolies are illegal! It is called a legal monopoly because it is created by law. The government may decide that a competitive market is not good for a certain industry. In this case, it can make one company the only legal supplier. Sometimes, it provides the service itself. This is called a *state monopoly*. The postal service in many countries is an example of a state monopoly.

Generally, monopolies are not good for consumers. This is because in a monopoly, the laws of supply and demand do not work in the same way. A company with a monopoly becomes a *price maker*. They have much more power to set the price for their product or service. Also, they don't usually spend money on innovation because they don't need to. The bottom line, as they say, is that monopolies mean less choice for consumers.

## E Comprehension

Now read the text again and match the phrases on the left with the definitions on the right.

- |                       |  |
|-----------------------|--|
| 1 pure monopoly       | A a company with the power to set prices in the market |
| 2 natural monopoly    | B when a company buys a competitor                     |
| 3 legal monopoly      | C when only one company supplies to the market         |
| 4 horizontal takeover | D when a company buys a supplier                       |
| 5 vertical takeover   | E when a monopoly occurs due to economies of scale     |
| 6 price maker         | F when a monopoly occurs due to government control     |

## Before you listen

Discuss this question with your partner.

- What dangers might monopolies face?

## F Listening

Now listen to someone talking about the threats which face monopolies. Tick the things in the list that are mentioned.

- |                                   |                          |
|-----------------------------------|--------------------------|
| 1 rising variable costs           | <input type="checkbox"/> |
| 2 a fall in demand                | <input type="checkbox"/> |
| 3 a change in fixed costs         | <input type="checkbox"/> |
| 4 innovation by another company   | <input type="checkbox"/> |
| 5 takeover from a foreign company | <input type="checkbox"/> |

## G Speaking

Discuss these questions with your partner.

- Do you know any industries where a monopoly exists?
- What are the benefits or drawbacks of having a monopoly in that industry?

### Task

Give a two-minute summary of what perfect competition is. First, read text 1 again and make notes below on the following and then present the talk to your class.

- What is perfect and imperfect competition?
- What is needed to make perfect competition possible?
- Why is it very difficult to create perfect competition?

Notes:

### Pronunciation guide

- Access (n) /ækses/  
 Identical /aɪdɪntɪkl/  
 Monopoly /mə'nɒpəli/  
 Affect /ə'fekt/  
 Barrier /bæriə(r)/  
 Equilibrium /i:kwɪ'briəm/  
 Occur /ə'kɜ:(r)/  
 Vertically /vɜ:tɪkli/  
 Horizontally /hɒrɪ'zɒntli/

## H Writing

Answer this essay question: 'What do economists mean by market structure? What kinds of market structure exist? How do different market structures affect consumers?'

### Essay about market structure

Use this plan to help you.

#### PARAGRAPH 1

**Introduction.** What is market structure?

**Useful words and phrases:**

compete, competition, market share, control over price

#### PARAGRAPH 2

Explain perfect and imperfect competition.

**Useful words and phrases:**

company size, market share, perfect substitutes, perfect information, barriers, access

#### PARAGRAPH 3

Explain monopolies.

**Useful words and phrases:**

pure monopolies, natural monopolies, economy of scale, takeover, legal monopolies

#### PARAGRAPH 4

Say how market structure affects consumers.

**Useful words and phrases:**

price makers and price takers, variety and consumer choice, quality

#### PARAGRAPH 5

**Conclusion.** Sum up in a few words what market structure is and how it affects consumers.

Write 200-250 words



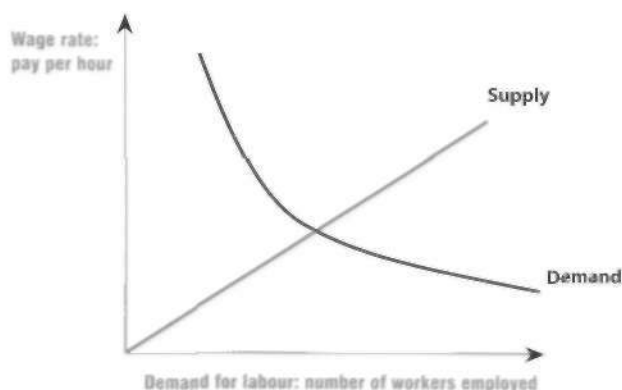


# Unit 7

## Reading 1

### The labour market

Figure 1: Supply and demand in the labour market



In many ways the relationship between employers and workers is similar to the relationship between consumers and producers: workers offer a service (the labour they provide), employers buy that service at a price they can afford (the wages they pay). As you can see, it's a kind of market. In economics, it's called the *labour market*.

In any market for products and services, consumers try to get the maximum utility, or satisfaction, from their purchase. This is the same in the labour market. What do companies want from their purchase of labour? What utility do they get? The answer is increased *output*. Output is how much of the product or service the company produces. If there is an increase in demand for their product, they will need to increase output. One way to do this (but not the only way) is to take on more staff. Another is to ask staff they already have to work more hours. In both cases, the company is buying more labour.

Just like any other market, the labour market obeys the laws of supply and demand. The demand is the employers' need for labour. Supply is the labour workers provide. Just like any other commodity, there is a relationship between price and demand. As the price of labour increases, the demand decreases. You can see this shown in figure 1.

The suppliers in the labour market are workers. Just like suppliers in other markets, they want a

## Before you read

Discuss these questions with your partner.

- In what situation(s) do you think a worker can ask for a lot of money?
- In what situation(s) can an employer pay less money to workers?

## A Vocabulary

Match the words with the definitions.

- |                |  |
|----------------|--|
| 1 take on      | A employees                                      |
| 2 obey         | B satisfaction or usefulness                     |
| 3 utility      | C be able to buy                                 |
| 4 output       | D follow   |
| 5 compromise   | E amount produced in a certain time              |
| 6 productivity | F employ more staff                              |
| 7 afford       | G both sides give up something in order to agree |
| 8 staff        | H what a company produces                        |



higher price for greater supply. In other words, as supply of labour increases, they want higher wages. Again, you can see this shown in figure 1. The wage that workers get for their labour is a compromise between what they want and what companies will pay. This is the point where the lines cross in figure 1.

However, there can be shifts in demand. These shifts can cause the overall demand for labour to increase or decrease at any wage rate. For example, if there is an increase in the demand for the end product or service, there will be an overall increase in demand for labour (the demand curve shifts to the right). However, if new technology can replace workers, then there will be an overall decrease in demand for labour (the demand curve shifts to the left).

One more thing which affects demand for labour is workers' productivity. The productivity of a worker is how much they produce in a certain time. For example, imagine that a worker makes ten pencils an hour one day, and only eight pencils an hour the next day. This is a fall in productivity. When worker productivity falls, companies will pay less for labour. They are also less likely to employ new workers.

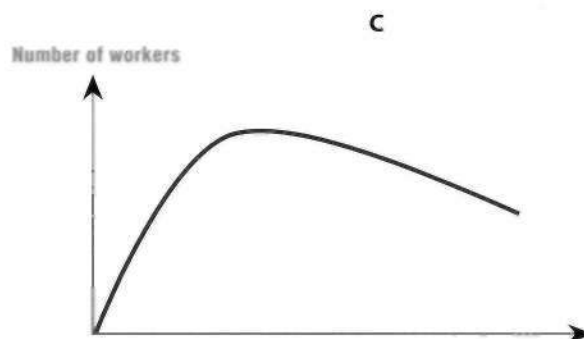
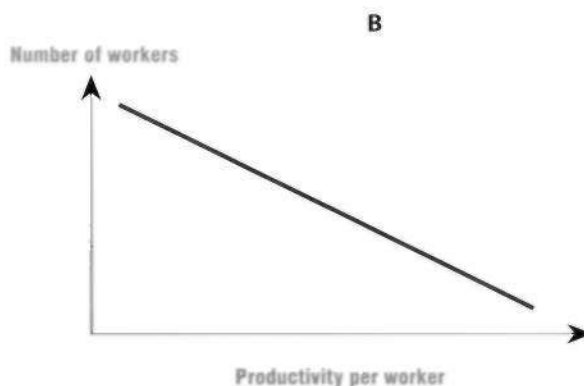
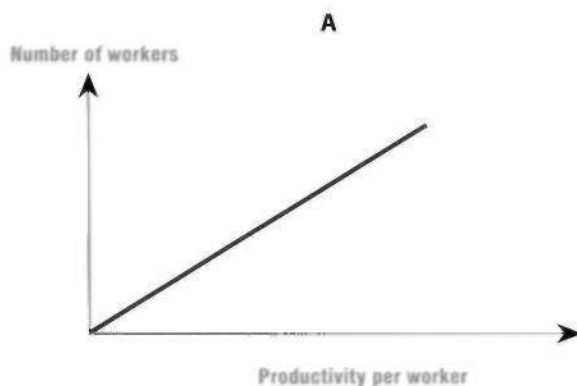
## Before you listen

Discuss this question with your partner.

→ What makes workers more or less productive?

### C Listening

Now listen to someone talking about one thing which affects productivity: the law of diminishing returns. Listen and choose the chart A, B or C which best illustrates this law.



### B Comprehension

Now read the text again and complete the sentences below in your own words in the space provided.

- 1 The labour market is similar to ...
- 2 Companies buy labour because they ...
- 3 Workers want higher ...
- 4 When the price of labour rises ...
- 5 Four things that cause a change in demand for labour are ...

Notes:

## Before you read

Discuss this question with your partner.

What would influence whether you want to work or not? Think about:

- wages
- free time
- where job situated
- health

## D Vocabulary

Complete each sentence with a word or phrase from the box.

- |                |                |             |
|----------------|----------------|-------------|
| ■ balance      | ■ compensation | ■ complex   |
| ■ influences   | ■ leisure      | ■ play a/an |
| ■ rate         | ■ role         | ■ skills    |
| ■ substitution | ■ switch off   |             |

- 1 At the weekend everyone needs to relax and ..... from school or work.
- 2 Employers ..... important ..... in the economy.
- 3 ..... is what you receive if you are badly affected by something.
- 4 ..... means replacing one thing with another.
- 5 Most people's ..... time is at the weekend and in the evenings.
- 6 It can be difficult to get the right ..... between work and free time.
- 7 The money you can earn ..... people's choice of job.
- 8 Some economic problems are very ..... There is no easy solution.
- 9 The hourly ..... for this job is seven pounds an hour.
- 10 The ability to speak foreign languages is one of the ..... needed for this job.



## Reading 2

# Supply of labour

Why do people work? To make money, of course. However, nothing in economics is ever that simple. The economist will ask a further question: how much are people prepared to work? The answer to this question is much more complex. Finding the right balance between work time and leisure time is one of the trade-offs we have to make in life. The balance each person chooses depends on a number of things.

First of all, there are natural limits. There are only 24 hours in a day, and we can't spend all of them working. Most people need eight hours sleep. That brings the number of hours we can spend on work or leisure down to 16. None of us are robots, so we all need some time to rest and switch off from work. This also brings down the possible number of working hours.

Then, of course, money plays a role. The way money influences working hours, though, is quite complicated. It can be separated into two effects: the *income effect* and the *substitution effect*.

The income effect works like this: People's time is a resource. If they give up that resource for work, they need compensation. This is usually in the form of a wage for hours worked. The more compensation they get for each hour worked, the less they will need to work. People with higher rates of pay (wages) can afford to have more leisure time than people on lower rates of pay.

So far, so good. However, are people happy just sitting at home and enjoying themselves? It depends on what they'll lose. In other words, it depends on the *opportunity cost* of not working. As the hourly rate for work increases, the cost of not working also increases. This means that as the wage rate increases, people want to work more hours. This is called the substitution effect. But the substitution effect also has a limit. Eventually, people will not work more hours, no matter how good the compensation is.

A good wage rate clearly attracts more workers, and encourages them to work longer hours. However, the strength of this relationship depends on how *elastic* the labour supply is. Sometimes it is difficult for companies to find a certain kind of worker. Perhaps there are not many people with the necessary skills. Or perhaps the company is in a place where there are not many available workers. In these situations, even if employers double the wage rate, they will only attract a small number of extra workers. The labour supply is *inelastic*. In the opposite situation, when it is easy for companies to find workers, the labour supply becomes *elastic*.



## E Comprehension

Now read the text again and choose the sentence which best summarises each paragraph.

### PARAGRAPH 1

- A People generally spend equal amounts of time on work and leisure.
- B People have to make compromises.
- C People work in order to have leisure time.

### PARAGRAPH 2

- A There are only a limited number of hours available for working.
- B Everyone works about 16 hours.
- C People can only work up to 24 hours a day.

### PARAGRAPH 3

- A You have to work more hours to make more money.
- B Earning a good wage allows you to spend less time working.
- C Some people get paid in their leisure time.

### PARAGRAPH 4

- A If you work more, you earn more.
- B If your wage is bad, you will want to work more.
- C If your wage is good, you will want to work more.

### PARAGRAPH 5

- A Sometimes it's hard to attract workers.
- B Sometimes workers don't want more money.
- C Elastic labour markets are more common than inelastic labour markets.

## Before you listen

Discuss these questions with your partner.

- Why are some jobs paid better than others?
- Why do some people get paid more than others for doing the same job?

## F Listening

Now listen to someone answering these questions. You will hear four reasons for differences in pay. What are they?

- 1 .....
- 2 .....
- 3 .....
- 4 .....

## G Speaking

Discuss these questions with your partner.

- Do people only work for money?
- What other motivation is there to work?

### Task

Give a two-minute talk on how supply and demand work in the labour market.

First, read the texts again and make notes below on the following.

- How is the labour market just like any other market?
- What affects demand for labour?
- What affects the supply of labour?
- What motivates people to work?

Notes:

## H Writing

You have seen this job advertised in a newspaper. Write a letter of application for the job.

### Required: Summer Camp Team Leader

We are looking for suitably qualified and experienced team leaders for our summer camps for young children (aged seven to twelve). Children come from all over Europe to our camps and take part in a variety of outdoor activities (camping, canoeing, climbing, trekking, etc).

Suitable candidates should have proven experience of working with this age group and have the necessary skills and qualifications.

Send letters of application to:

Ms Gibson  
Summer Fun Camps  
Wayfield  
Norfolk  
England

## Letter of application

Use these notes to help you.

### PARAGRAPH 1

Say why you're writing and where you saw the advertisement.

#### Useful words and phrases:

Dear Sir/Madam, I am writing in response to your advertisement in... I would like to apply for the post of ...

### PARAGRAPH 2

Summarise the suitable qualification you have for the job.

#### Useful words and phrases:

As you can see from my CV ... I am a qualified ... instructor.

In addition, I hold certificates in ...

I am a fluent / good speaker of ...

### PARAGRAPH 3

Summarise the relevant experience you have.

#### Useful words and phrases:

Furthermore, I have the relevant experience you are looking for. For the last five years I have ...

Two years ago I was ...

### PARAGRAPH 4

Say why you would like the job.

#### Useful words and phrases:

There are a number of reasons why I would like to ...

firstly, secondly, thirdly, furthermore, what is more, I hope to gain, I enjoy working with ...

This will be an opportunity to ...

Say thank you and sign off:

I look forward to hearing from you soon.

Yours faithfully,

(your full name)

Write 100-150 words

### Pronunciation guide

**Obey** /əbeɪ/

**Productivity** /prɒdʌktɪvəti/

**Utility** /juːtɪləti/

**Leisure** /leɪʒə(r)/

**Substitution** /sʌbstɪtjuːʃn/

**Encourage** /ɪnˈkʌrɪdʒ/

**Canoeing** /kəˈnuːɪŋ/

**Furthermore** /fɜːðəˈmɔː(r)/



# Unit 8

## Before you read

Discuss the following with your partner.

- Look at the photos. Each photo shows something that an economy needs in order to produce. Talk with your partner about what the photos show and why each thing is necessary for an economy.

## A Vocabulary

Choose the correct word.

- 1 All machines need **maintenance** / **replacement** so that they keep working well.
- 2 Scientists' laboratories are usually full of **packaging** / **apparatus** for experiments.
- 3 When a machine gets very old you need to buy a **maintenance** / **replacement**.
- 4 It's **illogical** / **mental** to take an umbrella out on a sunny day.
- 5 Plastic and cardboard are used a lot for the **packaging** / **apparatus** around products.
- 6 Some people enjoy doing **illogical** / **mental** activities like crosswords and board games.
- 7 Wood that hasn't been made into anything yet is called **timber** / **crops**.
- 8 A **storage** / **warehouse** is a large building for storing things.
- 9 The things that farmers grow in their fields are called **timber** / **crops**.
- 10 An industry that needs many workers is known as a **factor** / **labour** intensive industry.
- 11 If you don't need furniture or equipment for some time, you can put it into **storage** / **warehouse**.
- 12 The price of a product is a **factor** / **labour** which influences our decision to buy it.



## Reading 1

### Factors of production

One morning you wake up with a great idea. You've thought of a product that no one else has, and you're certain there's demand for it. But how will you turn your idea into reality? First of all you'll need raw materials to manufacture from - probably oil and metal, but also paper for packaging. You can't produce it by yourself, so you'll need people to help you make it, package it and market it. Finally, your staff will need a factory and machines to produce with. In short, you need the *factors of production*: *land, labour and capital*.



The factors of production are the starting point for all economies. No economy can exist without them. The most basic of the factors is land. When economists talk about land, however, they don't just mean space to build on or fields to grow crops. Land means everything that nature provides and we can use for production. The land factor includes raw materials like coal, metals, oil and timber. It also includes things like water, fish and salt. So, although it seems illogical, land also means the sea!

The second factor is labour. Raw materials will just stay in the ground unless people dig them out and do something with them. Similarly, factory machines will sit doing nothing without people to operate them. Labour can mean the physical effort such as lifting, digging and building. This is called manual work. Labour also includes mental work like thinking, writing, communicating and designing. Industries that need many workers working long hours are called *labour intensive industries*. However, the quality of labour is as important as the quantity. An educated, skilled and fit workforce is more productive than an uneducated, unskilled and unhealthy one. This characteristic of the labour factor is called *human capital*. Some countries have large labour forces, but are poor in human capital because the economy lacks education and health care.

The third factor is capital. Capital includes buildings such as factories for production and warehouses for storage. It also includes the tools and equipment that workers use in the manufacturing process. In heavy industries such as shipbuilding or steel making, capital usually involves big machinery and mechanical equipment. In high-tech industries, on the other hand, capital generally means computers and complex laboratory apparatus. These days, industry tends to be more capital intensive than labour intensive.

When companies make investments, they buy new capital. There are two types of investment that companies need to make. The first is to buy new equipment so that they can expand their production. This is called *net investment*. Net investment is essential for economic growth. However, equipment gets old and needs repairing or replacing. The money spent on this kind of maintenance is called *replacement investment*.

Land, labour and capital are the three factors of production identified by Adam Smith and the classical economists. However, more recent economists have identified one more factor: *entrepreneurship*. This means people like you, with great business ideas that set the economy in motion.

## E Comprehension

Now read the text again and decide whether these statements are true or false.

- 1 Raw materials are the most important factor of production. T ☐ / F ☐
- 2 The land factor includes all the raw materials that come from the land and the sea. T ☐ / F ☐
- 3 The most important thing about the labour factor is the size of the labour force. T ☐ / F ☐
- 4 In modern economies, more labour is used than capital. T ☐ / F ☐
- 5 Net investment allows companies to increase their production. T ☐ / F ☐
- 6 Entrepreneurs are part of the labour factor. T ☐ / F ☐

## Before you listen

Discuss the following with your partner.

- Entrepreneurship is the fourth factor of production. Which things in the list below do you think entrepreneurs bring to the economy?

## C Listening

- 1 managing people ☐
- 2 motivating people ☐
- 3 finding solutions to problems ☐
- 4 communicating with customers ☐
- 5 inventing new products ☐
- 6 finding new markets ☐
- 7 making profits ☐
- 8 organising things ☐
- 9 taking risks ☐

Now listen and tick the things which are mentioned.

## Before you read

Discuss the following with your partner.

Look at the workers in the picture:

- What kind of work are these people doing?
- How do you think they feel about it?
- What advantages are there for the company in organising workers like this?



## D Vocabulary

Complete each sentence with a word or phrase from the box.

- automatically   ■ child rearing
- dye   ■ emotional   ■ fundamental
- means   ■ mindless   ■ sew   ■ sloppy
- specialisation   ■ take pride in

- 1 ..... of transport are the methods we use to get from one place to another.
- 2 ..... work is work that is not very good quality.
- 3 To make clothes you have to know how to ..... the material together.
- 4 Having a ..... means that you deal with one particular area of any field.
- 5 You may visit a doctor if you have problems with your ..... health
- 6 Competition is ..... to the idea of the free market.
- 7 People who ..... their work do it very carefully and enjoy the results.
- 8 Mothers and fathers both have important roles to play in .....
- 9 Some people regard factory work as a ..... job but it isn't necessarily boring.
- 10 When you do something ....., you do it without thinking.
- 11 When manufacturers ..... clothes, they add colour.

## Reading 2

# Division of labour

Without the factors of production, companies cannot get started. To be successful, however, they need to make good use of those resources. To make best use of labour, you need to organise it. The *division of labour* is one way to achieve this.

Let's take making shirts as an example. What do you need to do to make a shirt? You need to design it, find the right material, cut the material, sew the pieces together, dye the shirt and sew on the buttons. One person working on their own could probably do all these tasks. This is one way to organise labour. Another way is for a number of workers to share the job. Each worker is responsible for one task in the process. This is an example of the division of labour.

The division of labour isn't a new idea. Even very early societies had some form of labour specialisation. For example, in some societies men were hunters and gatherers of food, while women were responsible for child rearing. However, as societies became industrialised, the division of labour increased. Factories became the main

means of production, and each factory worker became responsible for smaller and smaller stages in the process.

As each worker gets more and more experience at doing their particular task, they get better and better at it. This should improve the quality of their work. With smaller tasks to do, workers can do things automatically, without thinking about them. This will speed up their productivity, and speed up the whole production process. Finally, small tasks are easier to learn. As the division of labour increases, the amount of time needed to train each worker decreases. All of this means a more efficient and productive workforce ... at least, in theory.

There is, however, a human factor to consider. Workers are not machines. Their physical and emotional health has an impact on their productivity. Repeating the same simple task over and over again is very boring. Bored workers can't concentrate easily, and their mistakes will reduce the quality of their output. In addition, there is the problem of ownership. Many workers take pride in their work. They don't just work for wages, but also because they get satisfaction from doing a good job or from creating something useful or beautiful. If you only add buttons to a shirt, you don't feel that the shirt is your work. You can't take pride in a job that does not need skill to do. In this situation, workers become careless and their work becomes sloppy. Overall, this has a negative impact on productivity.

Thankfully, robots and machines can now do many of the mindless tasks that factory workers used to do. Nevertheless, the theory of the division of labour is still fundamental to all modern economies.



## E Comprehension

Now read the text again and match each paragraph with the correct heading.

PARAGRAPH 1 .....

PARAGRAPH 2 .....

PARAGRAPH 3 .....

PARAGRAPH 4 .....

PARAGRAPH 5 .....

PARAGRAPH 6 .....

- A The advantages of the division of labour
- B Technology has replaced a lot of human labour
- C Two ways to organise labour
- D The disadvantages of the division of labour
- E Division of labour in history
- F Making best use of what's available

## Before you listen

Discuss the following with your partner.

Read through the questions and tell each other what you think the correct answer might be.

- 1 When did Ford invent the Model T car?
  - A 1908
  - B 1918
  - C 1928
- 2 What was special about Ford's cars?
  - A They were the first quick car.
  - B They were affordable.
  - C Most Americans had one.
- 3 How did Ford keep costs low?
  - A By using cheap materials.
  - B By organising his labour force.
  - C By timing workers.
- 4 What did Ford have in 1930?
  - A The largest labour force in the world.
  - B The fastest production line in the world.
  - C The largest factory in the world.
- 5 In his film *Modern Times* Charlie Chaplin ...
  - A was criticising the effects of mass production.
  - B focused on Ford's factories.
  - C played a factory owner.

## F Listening

Now listen and check your answers.

## G Speaking

Discuss these questions with your partner.

- Do you think some division of labour is natural?
- Are some people better suited to some jobs than others?
- Do economies really need entrepreneurs?

### Task

Work in groups of three. Talk about each of the items listed below. Use the space below to make notes.

What factors of production are necessary?

What would be the best way to organise labour to produce the following items?

- a car
- a pencil
- a portrait painted in oil paints
- a newspaper
- a high quality violin

Notes:

## H Writing

You are the production manager for a new manufacturing company. (You decide what the company manufactures). The managing director has asked you to produce a report on the following.

- the land, capital and labour resources which are required
- the best way to organise production

### Business report

Use these notes to help you.

#### PARAGRAPH 1

##### Introduction.

What this report is about and who it is for.

#### PARAGRAPH 2

Raw materials required.

Equipment required.

Buildings and transport required.

#### PARAGRAPH 3

Labour force required (numbers).

Human capital issues (qualifications and skills expected / training required).

#### PARAGRAPH 4

Division of labour - how should labour be organised for production.

#### CONCLUSION

Say you hope to be successful if your suggestions (sum up your points in a sentence) are followed.

Write 200-250 words

#### Pronunciation guide

**Maintenance** /meɪntənəns/

**Apparatus** /æpə'rentəs/

**Quantity** /kwɒntə'ti/

**Entrepreneurship** /ɒntrəprə'nɜ:(r)ʃɪp/

**Automatically** /ɔ:tə'mætɪkli/

**Rear** /rɪə(r)/

**Sew** /səʊ/

**Efficient** /rɪfɪjnt/

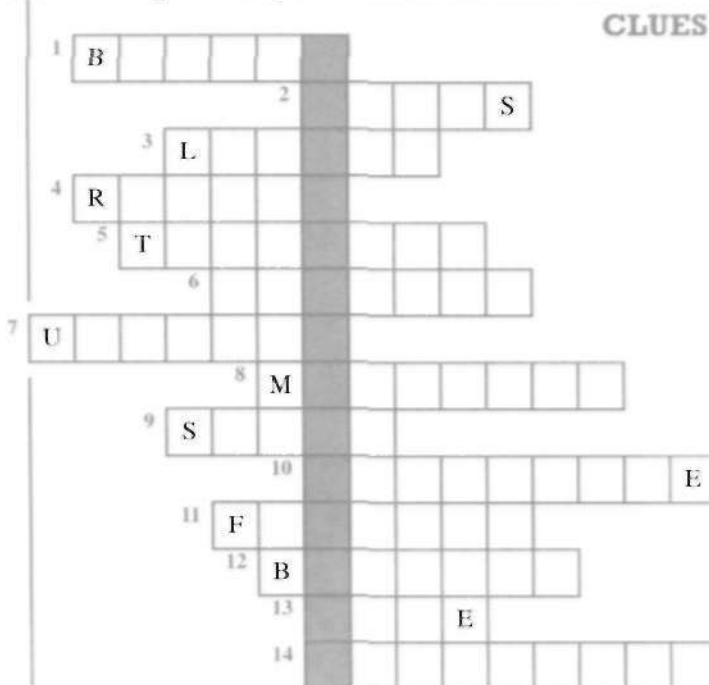
**Gatherer** /gæðərə(r)/

**Ownership** /əʊnə(r)ʃɪp/

**Quality** /kwɒlə'ti/

# Revision Vocabulary Units 5 to 8

**A** Complete the puzzle with words from units 5 to 8. Can you find the highlighted phrase?



## CLUES

- 1 Combination of goods that a consumer spends money on - like chocolate and a bottle of water.
- 2 The money that companies spend.
- 3 Work or effort.
- 4 Constant ..... to scale.
- 5 When a company buys another company to control it.
- 6 Difficult to solve.
- 7 The economist's word for the satisfaction you get from something.
- 8 A market structure where one company has the largest market share.
- 9 This can happen to the demand curve - right or left.
- 10 Pure monopoly and perfect competition are examples of market .....
- 11 Land, labour and capital are three ..... of production.
- 12 Something that stops a company entering the market.
- 13 Henry Ford invented the production .....
- 14 This person is the fourth factor of production.

**B1** Find eight pairs of words that make expressions we use in economics.

- budget ■ choice ■ constraint
- consumer ■ cost ■ diminishing
- increased ■ intensive ■ labour
- marginal ■ opportunity ■ output
- price ■ returns ■ taker ■ utility

**B2** Now write five example sentences using as many of the pairs of words as you can.

**C** The words in blue in the letter opposite are in the wrong places. Correct the letter by putting the words in the correct places.

Dear Mr Snape,

I am sorry to have to write to you with bad news. After 35 years as one of Bollington's top printing companies, we have decided to close the business down.

In the last five years P&Q Printing have made many aggressive (1) **skills** of other companies. Furthermore, with their modern factories, P&Q operate an economy of (2) **staff** which is difficult for us to compete with. Their factory here in Bollington produces over 2,000 books per month. This is double the (3) **takeovers** of our traditional printing methods. Moreover, they can provide (4) **warehouses** for their products. Their large (5) **storage** enable them to do this. This also helps them keep costs down.

Of course, our decision means that our (6) **scale** will lose their jobs. This is very sad, as they have all taken (7) **dafford** in their work over the years. However, we simply cannot (8) **pride** to pay their salaries anymore. The only good thing is that they all have valuable (9) **productivity** and I am sure they will find work quickly.

I will write to you again with further details as soon as I have them.

Yours sincerely,

John Ink

Managing Director



# Unit 9

## Before you read

Discuss this question with your partner.

- When you are shopping, how do you know if something is at a good price, or if something is too expensive?

### A Vocabulary

Choose the correct answer A, B, or C from the list below.

- Children often complain and ..... when they don't get what they want.
- A cheerful person is .....
- Parents are responsible for their children's ..... until they become adults.
- If you get a bargain, you get something .....
- The police are offering a ..... for any information about the robbery.
- If you work faster you ..... more money or more free time.
- You can't always get everything you want. Sometimes you have to .....
- Every profession has its own ..... - special words and phrases that are only used in that profession.
- The total spending by a government is sometimes called ..... spending.
- If you have a ..... of something, you have more than you need.

- |                 |                   |                   |
|-----------------|-------------------|-------------------|
| 1 A bargain     | B compromise      | C moan            |
| 2 A happy       | B sad             | C strange         |
| 3 A rewards     | B welfare         | C jargon          |
| 4 A for nothing | B at a high price | C at a good price |
| 5 A reward      | B salary          | C compromise      |
| 6 A bring       | B reward          | C gain            |

- |               |              |            |
|---------------|--------------|------------|
| 7 A moan      | B compromise | C bargain  |
| 8 A moan      | B compromise | C jargon   |
| 9 A whole     | B aggregate  | C complete |
| 10 A shortage | B surplus    | C quantity |



### Reading 1

## Surplus

In a free market, price is decided by the laws of supply and demand. The market price is the price that sellers are happy to take and consumers are happy to pay. It's a compromise, but in the end everyone is happy, right? Well, not quite everyone. Some sellers will think the market price is not a good enough reward for their efforts. They will continue to sell at a higher price, even if almost no one walks through their shop door. Similarly, some people will walk away from the market, moaning about the price and refusing to pay. You can't please everyone!

However, there will be some people who are more than happy with the market price. What makes them so cheerful? These are the people who had expected to pay a higher price, but found that the market price was actually lower. These people feel that, by paying the market price, they have got a bargain. In the jargon of economics, they have got *consumer surplus*. Consumer surplus is the difference between the price consumers are prepared to pay and the price they really do pay.

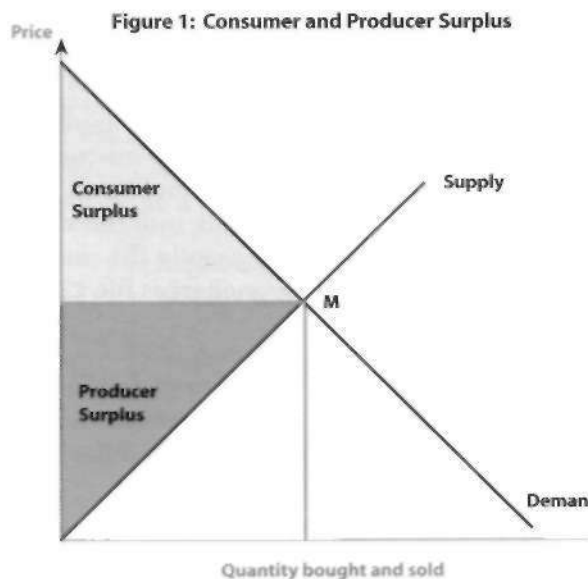


The idea of consumer surplus is shown in figure D1 on page 47. M is the market price. You can see that the demand line carries on above the market price. This means that there are consumers who are prepared to pay above the market price.

Each of these consumers will gain a different amount of consumer surplus by paying the market price. Together, all the surplus they gain is called the *aggregate consumer surplus*. This is the grey area shown in figure 1.

Consumers aren't the only ones who enjoy surplus. There is *producer surplus*, too. Remember that the law of supply says supply rises as price rises. This is because smaller amounts cost less to produce than larger amounts. For this reason, producers would have been happy to sell some of their output below market price. However, once the market price is set, they can sell all their produce at that price.

Think about wine producers for example. The first 50 litres of their wine cost two euros per litre to produce. The next 50 litres cost three euros per litre to produce. At the market, however, they can sell all their wine at the price of three euros per litre. The extra money they make on the first 50 litres is the producer surplus. The higher the market price is, the bigger the producer surplus will be. The total is called the *aggregate producer surplus*. This is the pink area in figure 1.



Surplus is an important concept. In one way it is a measure of the utility that consumers gain from their purchase. It is also a measure of the profit that producers make. Moreover, consumer and producer surplus together are a measure of the benefit everyone gains from the economic transaction. In economist jargon, surplus is a measure of economic welfare.

## B Comprehension

Now read the text again and decide whether these statements are true or false.

- 1 Market price should please the seller and the buyer. T ☐ / F ☐
- 2 Some consumers will get more surplus than others. T ☐ / F ☐
- 3 Aggregate consumer surplus is all the money that buyers spend. T ☐ / F ☐
- 4 Producer surplus is the goods that producers can't sell. T ☐ / F ☐
- 5 Producer surplus exists because production costs vary. T ☐ / F ☐
- 6 Surplus is a measure of how happy and well off people are. T ☐ / F ☐

## Before you listen

Discuss the following with your partner.

Is there anything strange about this price list?

- Shampoo €3.00
- Olive oil €10.00
- Bottle of cola €1.50

Shops often use odd numbers when they price things. For example, €2.99 or €1.65. Why do they do this? Choose from the list below.

## C Listening

- 1 The prices are calculated by computer. ☐
- 2 Items seem cheaper than they are. ☐
- 3 Shops make more profit by pricing in this way. ☐
- 4 These prices affect consumers' decisions. ☐
- 5 Shop assistants won't be able to steal money from the shop. ☐

Now listen and check your answers.

## Before you read

Discuss the following with your partner.

Look at the picture opposite:

- What is happening?
- What kind of things are sold here?
- What are the advantages or disadvantages of this way of buying and selling?



## D Vocabulary

Complete each sentence with a word or phrase from the box.

- |               |                  |              |
|---------------|------------------|--------------|
| ■ accordingly | ■ auction        | ■ degree     |
| ■ discount    | ■ discrimination | ■ guesswork  |
| ■ in bulk     | ■ markup price   | ■ pensioners |
| ■ retailers   | ■ risk-taking    | ■ wholesaler |

- 1 Some people like dangerous sports because they enjoy .....
- 2 In an ....., the item for sale is sold to the customer who offers the highest price.
- 3 The ..... is the extra money shops add to the value of something in order to make a profit.
- 4 In the past, forecasting the weather was just .....
- 5 When you are in a formal situation, you have to dress and behave .....
- 6 In the winter sales the shops often give a ..... of up to 50%.
- 7 When you buy ....., you buy very large quantities of something.
- 8 ..... is when you treat some people differently to others.
- 9 ..... are people who sell things.
- 10 A ..... is a company that buys large quantities of goods from factories and sells them on to shopkeepers.
- 11 To what ..... you do something, means how much you do it.
- 12 Because retired people usually receive a pension, they are often called .....

## Reading 2

# Price discrimination

The market price for a product is like a signpost for companies. It shows them more or less what people are prepared to pay. Nevertheless, companies can set their prices just above or just below the market price if they want. They can even choose to ignore the market price completely. In the real world of business, setting prices involves skill, guesswork and risk-taking. Companies have lots of pricing *tricks* which help to increase profits. One of these tricks is *price discrimination*.

Price discrimination means charging a different price for the same product to different customers. For example, you walk into a shop and buy a CD for €15. A few minutes later, I walk into the same shop and buy another copy of exactly the same CD. This time, the shopkeeper charges me €20! That's price discrimination.

There are different types, or degrees, of price discrimination. *First degree price discrimination* is when almost every consumer pays a different price for the same product. How can this happen? Remember that the demand curve slopes downward. In theory, every consumer has their own point on the curve. In other words,

each person values the product differently. You may think that an Elton John CD is worth €20, whereas I think it's only worth 50 cents! We are on different points on the demand curve. With first degree discrimination, each consumer will pay what he or she thinks the product is worth, and sellers charge each person accordingly.

This all sounds great, but it is not usually practical in the real market place. Nevertheless, it is sometimes possible. An auction, for example, works in this way. In an auction, each consumer makes a bid for the product, and the highest bid wins. In this way, the product is sold at a price that the buyer thinks is right. Auctioning is becoming more and more common on the World Wide Web, and auctioning websites have become very big business.

*Second degree price discrimination* is more common than first degree discrimination. It involves changing price according to how much of the product is sold. For example, if a customer buys three pencils, they pay one euro per pencil. If they buy 300 pencils, they pay only 75 cents per pencil. This is a kind of reward for buying large amounts. This kind of discrimination is important for retailers. It allows shopkeepers to buy goods in bulk from wholesalers at lower prices. Shopkeepers then add a markup price when they sell the goods on to ordinary customers.

What about *third degree price discrimination*? This is when certain types of customer are charged different prices. For example, pensioners and students often get discounts on public transport or for arts events. These people cannot afford the normal market price. By offering discounts, companies widen their market share but still make a profit.

Registration form for proxy,  
telephone or internet bidding

Section One - Registration Details

Please select a method of bidding:

Proxy Telephone Internet

Internet Bidders only: please choose a  
Personal Identification Number (4 digits)

Date of Auction Lot Number

Address of Lot

Maximum Bid Price (not necessary if I bid cheap)  
submitted: £  
(in words)

## E Comprehension

Now read the text again and choose the kind of price discrimination that matches these descriptions.

- 1 A different price is charged to each customer.  
A first degree  
B second degree  
C third degree
- 2 It helps make products and services more affordable to some people.  
A first degree  
B second degree  
C third degree
- 3 It rarely happens in real markets.  
A first degree  
B second degree  
C third degree
- 4 The price falls as quantity rises.  
A first degree  
B second degree  
C third degree
- 5 It happens on the Internet.  
A first degree  
B second degree  
C third degree

## Before you listen

Discuss the following with your partner.

- eBay is an online auctioning website. Have you heard of it? Tell your partner what you know about eBay.

## F Listening

Now listen and complete the summary with words or numbers.

The online auction site eBay was started in (1) ..... by Pierre Omidyar. He started it as a (2) ..... but it became a huge business. On eBay, sellers show what they have and buyers make (3) ..... for the item. The highest bidder wins. The system is an example of (4) ..... degree price discrimination and it is very successful. Worldwide, the website has (5) ..... users. It trades \$1,500 worth of goods every (6) ..... The most expensive item sold on eBay was an (7) ..... It sold for \$ (8) .....

## G Speaking

Discuss these questions with your partner.

- Do you think consumer surplus is a good measure of welfare?
- Is price discrimination fair?
- Would you ever buy something at an auction or on the Internet?

### Task

Give a two-minute talk on *price*. First make notes below on the following.

- What is market price? (See Reading 1)
- What is consumer and producer surplus? (See Reading 1)
- What is price discrimination and why do producers use it? (See Reading 2)

During your talk, use figure 1 on page 47 to help explain the idea of surplus. Also, give real examples that you know about to illustrate your points.

Notes:

## H Writing

Imagine that you've got a good idea for an Internet commerce site (an Internet site which is also a business). Tell your friend what your idea is.

### Informal letter to a friend

#### PARAGRAPH 1

Thank your friend for his/her last letter.  
Make a comment about news that they told you in their letter.  
Tell them your news.

#### PARAGRAPH 2

Describe your idea for an Internet commerce site.  
What product will you sell / what service will you provide?

#### PARAGRAPH 3

Explain how you got the idea.  
Say why you think it will work.

Sign off

Write 100-150 words



#### Pronunciation guide

**Bargain** (n) /bɑːɡən/

**Jargon** /dʒɑːɡən/

**Similarly** /sɪmələli/

**Aggregate** (adj) /æɡrɪɡət/ (v) /æɡrɪɡeɪt/

**Auction** /ɔːkʃn/

**Wholesaler** /həʊlseɪlə(r)/

**Discrimination** /dɪskrɪmɪneɪʃn/

**Signpost** /saɪnpəʊst/

# Unit 10

## Before you read

Discuss this question with your partner.

- Welfare economics has been called *economics with a heart*. What does this tell you about welfare economics?

## A Vocabulary

Match the words and phrases with the definitions.

- |                         |  |
|-------------------------|--|
| 1 vertical              | A an exchange such as buying and selling                                   |
| 2 horizontal            | B idea of being the same / equal   |
| 3 equity                | C level, for example from left to right                                    |
| 4 distribute            | D going straight up and down   |
| 5 to be fair            | E someone who sets up a new business of their own                          |
| 6 investigate           | F punish   |
| 7 an individual         | G income   |
| 8 issue                 | H to treat people reasonably and in the right way                          |
| 9 to be unjust          | I to treat people unreasonably or in the wrong way                         |
| 10 penalise             | J look into  |
| 11 entrepreneur         | K share out  |
| 12 economic transaction | L effect   |
| 13 impact               | M a person   |
| 14 earnings             | N something important that people talk about                               |
| 15 externality          | O something that happens without being expected                            |
| 16 taxation             | P system of taking part of people's earnings to give governments an income |

17 policy

Q the amount of a product that people buy or use

18 consumption

R rule made by government, and/or the course it follows



## Reading 1

# Welfare economics

Behind the numbers, charts and formulas of economics, there are people. This is sometimes easy to forget. Economics isn't only about profits, losses and utility. It's about society. Economic ideas and theories often seem to be issues that are far removed from people's everyday lives. Welfare economics, however, tries to correct this. It looks at how economic policies affect society, families and the individual.

One of the big issues in welfare economics is *equity*. Equity means fairness, and *welfare*



*economists* are interested in measuring how fair our economic systems are. One way they do this is to look at how income and wealth are distributed among the population. Welfare economists also investigate the effects of government policy on equity.

Governments' main weapon to fight inequity (unfairness) is taxation. Welfare economists try to find out how taxation affects *vertical equity* and *horizontal equity*, which are two ideas that taxation systems can be based on. The idea behind vertical equity is that people with more income will pay more than those with less income. The idea behind horizontal equity is that people with the same income will pay the same amount of tax. Ideally, a tax system will have both vertical and horizontal equity.

However, some economists feel that any kind of taxation on people's earnings is unjust. They believe it is unfair to penalise entrepreneurs and hard-workers. Why should people who are less able or less hard-working be supported by others? In this view of welfare economics, inequity is a natural feature of every economic system. Trying to create equity, they say, is just a waste of time. Instead, it is better to make economic systems more efficient. A more efficient economy grows faster and everyone in society benefits.

Welfare economics isn't only about the fairness of economic systems. It's also about the impact that economic choices have on our lives. Economic transactions often affect other people who are not directly involved in those transactions. Economists call these results *externalities*. Externalities are sometimes good and sometimes bad for society. For example, pollution is a *negative externality* of the car industry. But cars give people better mobility, which is a *positive externality* of the same industry.

Production is not the only cause of negative externalities for society. Many are due to our use or consumption of goods. People's litter in parks and on beaches is one example; noisy neighbours playing their CD player loudly is another. These are both examples of externalities causing pollution. However, health problems from smoking and drinking alcohol are also externalities from economic transactions. These have a cost for individuals, but also for society as a whole.

## B Comprehension

Now read the text again and answer these questions in your own words in the space provided below.

- 1 According to the text, what do people often forget about economics?
- 2 How do governments try to make the economy fair?
- 3 What is the difference between horizontal and vertical equity?
- 4 Why do some economists think equity is not important?
- 5 What are externalities?

Notes:

## Before you listen

Discuss the following with your partner.

- When externalities are good for society, they are called positive externalities. Can you think of any economic transactions that could have positive externalities?

## C Listening

Now listen and tick which transactions in the list are mentioned.

- |  |                          |
|--|--------------------------|
| 1 buying a new house                     | <input type="checkbox"/> |
| 2 fixing up an old home                  | <input type="checkbox"/> |
| 3 buying books                           | <input type="checkbox"/> |
| 4 paying for a course at a local college | <input type="checkbox"/> |
| 5 joining a gym                          | <input type="checkbox"/> |
| 6 going on holiday                       | <input type="checkbox"/> |



## Before you read

Discuss these questions with your partner.

- What do you think your government spends money on?
- Where do you imagine most of the government's money goes?
- Would you say the government spends wisely?

## D Vocabulary

Complete each sentence with a word or phrase from the box.

- ☐ benefits   ☐ charge   ☐ discourage  
☐ essential   ☐ financial   ☐ harmful  
☐ income gap   ☐ luxuries   ☐ source  
☐ taxation

- 1 If you give someone ..... help, you give them money.
- 2 ..... are money that the government gives to people who need help.
- 3 If you ..... someone from doing something, you persuade them not to do it.
- 4 ..... things are not good for your health.
- 5 The difference between the highest salaries and the lowest is called the .....
- 6 Companies ..... customers for their services.
- 7 For most people, the ..... of their income is paid work.
- 8 Governments get most of their money through .....
- 9 Water is ..... to life, but it costs very little.
- 10 ..... are expensive things that we don't really need.



## Reading 2

# Government revenue and spending

In the UK, the government spends about £500 billion a year. Where does such a huge amount of money come from? Perhaps more importantly, what does the government spend it on? The money governments have to spend is called *revenue*. Revenue comes from several sources, including charging for services and borrowing. However, a government's main source of revenue is taxation. There are different kinds of taxes. For example, anyone with a regular income has to pay income tax on their earnings. This is a percentage of their income which goes to the government. Many countries operate a system called *progressive income tax*. Under this system, people with a higher income pay a higher percentage to the government. Another kind of tax is *value added tax*. This is paid when we buy goods or services which are not essential or are regarded as luxuries.



Taxation, however, is not only a way for a government to earn revenue. Through taxation, governments also achieve a number of other things. Income tax, for example, should help to make the income gap between the rich and the poor smaller. Tax on harmful products like tobacco and alcohol should discourage people from consuming them. Finally, taxation is a way for the government to control overall supply and demand in the market. For instance, a very high tax on a product will mean few people can buy it and therefore its market will be very small.

So where does the money go? Revenue is generally spent on a combination of public services and something called *transfer payments*. Transfer payments are benefits that are given to families and individuals in society who need financial support. In Britain, transfer payments make up almost a third of all public spending. These payments include *safety net benefits* such as unemployment benefit and social security benefits for families who do not have enough income to get by.

Most of the rest of the revenue goes on public goods. These can be divided into two areas: *pure public goods* and *mixed public goods*. Pure public goods are things like street lighting or national defence. These are important for everyone in a society, but they cannot be supplied by private business. To understand why not, let's look at the example of street lighting. Lighting needs to be offered to everyone who uses the streets. If a private business provided street lighting, they would need to charge for it. But how could they make everyone pay? Non-payers would benefit from the lighting, too. It would be impossible to stop them. This is why a government, and not private businesses, offers street lighting; everyone pays for it through their taxes.

Mixed public goods are things which people ought to have because they are beneficial, such as health care and education. Why do many governments fund these things? The reason is that having a healthy, educated population is good for the economy and for society as a whole. People, especially those on low incomes, may not be able to spend money on these services. Governments fund the services so that everyone can afford them, and this encourages people to use them.

## E Comprehension

Now read the text again and match each paragraph with the correct heading.

PARAGRAPH 1 .....

PARAGRAPH 2 .....

PARAGRAPH 3 .....

PARAGRAPH 4 .....

PARAGRAPH 5 .....

A The aims of taxation

B Services that businesses won't provide

C Providing what's good for us

D Providing social support

E Collecting income

## Before you listen

Discuss the following with your partner.

The pie chart below shows how the UK government spends its revenue. Each segment of the pie (A to H) shows a different area of spending. The key shows what these areas are. Some labels are missing. Which of these areas do you think they are?

→ Defence

→ Education

→ Environment

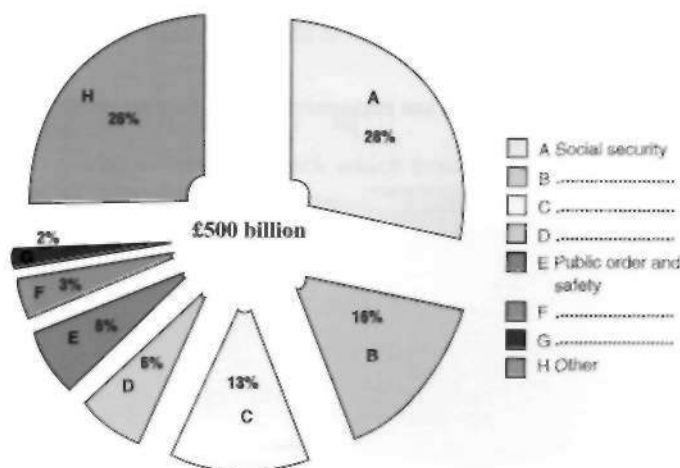
→ Health care

→ Transport

## F Listening

Now listen and complete the chart.

UK Government Spending: Where does the money go?



## G Speaking

Discuss these questions with your partner.

- In your opinion, what is more important for an economic system - equity or efficiency?
- Do you think the tax system in your country is fair? Why / Why not?

### Task

Work in groups of four. Each of you has one of the following roles.

Finance Minister - you decide on how government revenue should be spent.

Education Minister - you want more spending on education.

**Talk about:**

- overcrowded classrooms
- lack of facilities
- teacher training

Environment Minister - you want more spending on roads and public transport.

**Talk about:**

- dangerous roads
- improving country roads
- increased underground train system
- free transport for retired people

Health Minister - you want more spending on hospitals and health care.

**Talk about:**

- cheaper medicine
- waiting lists in hospitals
- length of time to get a doctor's appointment
- hospital facilities

**Ministers: persuade the Finance Minister to give you more money.**

**Finance Minister: ask questions to decide who needs more money.**

### Pronunciation guide

**Issue** /ɪʃuː/

**Consumption** /kən'sʌmpʃn/

**Equity** /ekwəti/

**Externality** /ekstɜː'næləti/

**Beneficial** /benɪ'fiʃl/

**Percentage** /pə'sentɪdʒ/

**Revenue** /revənjuː/

**Taxation** /tæk'seɪʃn/

## H Writing

Write the following composition: 'What is welfare economics and why is it important?'

First read through the texts again and make notes, then use the outline plan to organise your composition.

### Composition

#### PARAGRAPH 1

Explain what welfare economics studies.

**Points to include:**

economics is not just numbers, economics with a heart, government policies affect society

**Useful words and phrases:** everyday lives, equity, externalities

#### PARAGRAPH 2

Say how economic relationships affect the welfare of a society.

**Mention these relationships:**

Buyers and sellers - how do prices affect people's lives?

Workers and employees - how does work affect people's lives?

Factories and the environment - what is the affect of the economy on our environment?

**Useful words and phrases:** cost of living, wages, working conditions, damage, pollution

#### PARAGRAPH 3

Explain how taxation can create equity in the economy.

**Points to include:**

What is equity?

How can taxation help to create equity?

How can a tax system have vertical and horizontal equity?

**Useful words and phrases:** fairness, unfairness, income, distribute, wealth

#### PARAGRAPH 4

Sum up by saying why you think welfare economics is important.

**Points to include:**

Importance of understanding how economics affects our lives.

Can economic policies make our lives better?

**Useful words and phrases:** to sum up, in my view, helps us appreciate, impact, improve

**Write 200-250 words**

# Unit 11

## Before you read

Discuss these questions with your partner.

- What do you think it means to be wealthy?
- Why are some people wealthier than others?

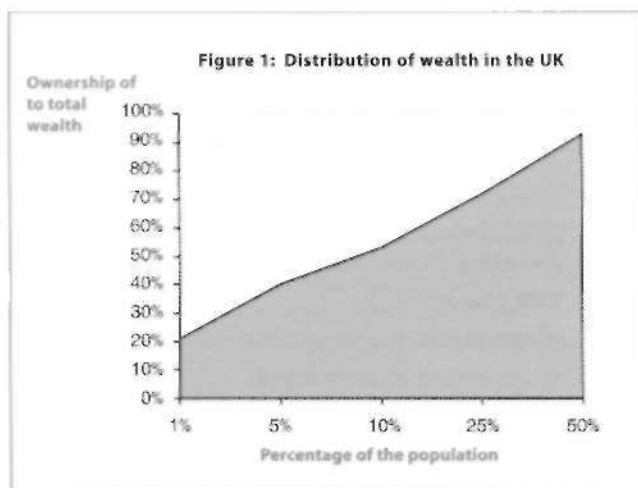
### A Vocabulary

Match the words and phrases with the definitions.

- 1 valuable
- 2 invest
- 3 pension scheme
- 4 static
- 5 belongings
- 6 flow
- 7 distribution
- 8 interest
- 9 savings
- 10 inequality
- 11 extent
- 12 stocks and shares
- 13 store

- A** to lend money to a company or bank in order to earn more money
- B** how large or important something is
- C** the way in which a supply of something, like money, is shared among people
- D** money put somewhere for later use, for example in the bank
- E** immobile, not moving
- F** unfairness

- G** a way of saving money for when you get old and stop working
- H** things someone owns, but usually things that can be moved
- I** if you save money in a bank, you get this extra money for keeping it there
- J** movement like a river
- K** important or worth money
- L** a collection or supply of things kept for later use
- M** part of the value of a company – people buy and sell these



### Reading 1

## Wealth, income and inequality

What does it mean to be *wealthy*? The answer to this question varies from culture to culture. In the modernised, industrial world that we live in, wealth generally means all the collected *store* of valuable things that belong to a person (or family, company or country). Wealth can include money saved in bank accounts, or invested in pension schemes. It can include land, houses or other property and valuable belongings such as works of art or precious jewels. Many people also own stocks and shares in companies. The various things that make up a person's wealth are often called *assets*.

So wealth is a static thing. The term *income*, on the other hand, suggests a *flow* of money. Income is the amount of money that a person (or family or company) receives over a period of time. For most people, this means the salary they get for the work they do. However, there are other sources of income. One source is government benefits, such as unemployment benefit or family support. Another source is rent from property and another is interest from savings.

Huge inequalities in wealth owned by individuals exist in many countries. Take the United Kingdom for example. A fifth of all the marketable wealth is owned by just one per cent of the UK's population. That one per cent own over £355 billion of assets. Figure 1 on page 56 shows how the rest of the United Kingdom's wealth is distributed. As you can see, the richest 50 per cent of the population own over 93 per cent of the wealth. In other words, half the population own nearly all the wealth and the other half own only a tiny percentage. The chart also shows that the richest one per cent of the population own over a fifth of all the country's wealth.

Large inequalities also exist in the distribution of income. The extent of these inequalities can be shown with something called the *Lorenz curve*. You can see an example in figure 2 below. The straight blue line shows perfectly equal distribution of income. For example, the bottom 20 per cent earn 20 per cent of the total income. The bottom 40 per cent earn 40 per cent and so on. This is the ideal situation. The red curve, however, shows the real situation for the United

Kingdom. You can see immediately how far from perfect the distribution is. Half of the population, for example, earn just under a third of the total income. Move horizontally along the population line and you can see that 90 per cent of the population take only 70 per cent of the total income. This means that the top ten per cent of the population earn nearly 30 per cent of the country's total income.

## B Comprehension

Now read the text again and match each paragraph with the correct heading. There are two extra headings that you don't need.

PARAGRAPH 1 .....

PARAGRAPH 2 .....

PARAGRAPH 3 .....

PARAGRAPH 4 .....

A How governments can create more equality

B Inequalities in income

C Inequalities in wealth

D What income is

E What wealth is

F Why there are inequalities in wealth and income

## Before you listen

Discuss the following with your partner.

Economic inequality also exists on a global scale. Below are some facts about global economic inequality. See if you can guess which figures from the box complete the notes.

2/3

1

3

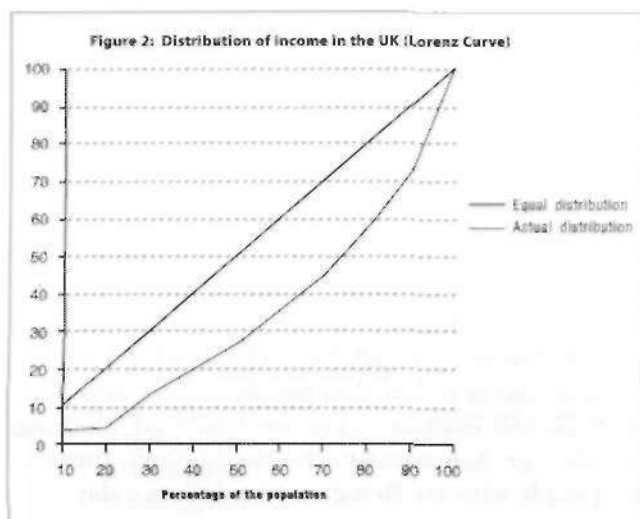
57

50

The lowest earning Americans have higher incomes than (1) ..... of the world's population.

The world's richest (2) ..... per cent earn more than the combined income of the world's poorest (3) ..... per cent.

The (4) ..... richest people in the world have incomes that are more than the combined incomes of the poorest (5) ..... countries in the world.



## C Listening

Now listen and check your answers.



## Before you read

Discuss these questions with your partner.

- What does poverty mean? Is there a way to define it?
- How many people in the world do you think live in poverty?
- Do you believe people in industrialised countries live in poverty?

## D Vocabulary

Complete each sentence with a word or phrase from the box.

- absolute ■ associate ■ average  
 ■ corruption ■ cycle ■ define  
 ■ generation ■ natural disasters  
 ■ shelter ■ trap

- 1 We ..... high crime rates with poverty and unemployment.
- 2 Having a ..... , a roof over your head, is a basic need of humankind.
- 3 How does the dictionary ..... this word?
- 4 Floods, droughts, hurricanes and other ..... are happening more frequently.
- 5 Giving money secretly to judges or politicians so that they help you is an example of .....
- 6 Hunters will sometimes set a ..... instead of using a gun.
- 7 Let's hope the next ..... finally put an end to hunger and poverty.
- 8 The world's water supply is a ..... which involves the sea, rainfall and rivers.
- 9 If somebody lives in ..... poverty, that means they are completely without money to buy basic necessities.
- 10 The ..... salary at that company is very high.



## Reading 2

### Poverty

Without a doubt poverty is a huge problem in the world today. Figures suggest that three billion people or half the world's population live in poverty. However, although we associate poverty with developing countries, poverty of some kind also exists in industrialised nations. For example, it is now thought that quite possibly one in every ten Americans lives in poverty. However, poverty means different things to different people. How do economists define poverty?

One measure of poverty is *absolute poverty*. People live in absolute poverty when they live on or below the *poverty line*. This is a level of income that is so low that people cannot afford the basic necessities to live, such as food, clothing and shelter. According to the World Bank, these are people who are living on two dollars a day.





However, there are one billion people in the world who live on less than one dollar a day. The World Bank defines this as *extreme poverty*.

Few people in industrialised countries live in absolute poverty, but many live in *relative poverty*. This measure of poverty takes into account the differences that exist in a population between the rich and the poor. For example, some economists say that people who earn less than half the average income live in relative poverty. In Britain, this means 14 million people.

Why does poverty still exist? There is no single answer to this question. In developing countries, causes of absolute poverty include natural disasters like droughts and floods, political corruption and war. However, in many cases people - and whole populations - are caught in a trap: the *poverty trap*.

People on a low income spend everything they have on daily necessities. They save almost nothing. In order to raise themselves out of poverty, they need education. This costs money. Even when governments provide free schooling, the poor may not send their children because they need them to work. These families cannot afford the cost of sending a child to school. Without education, the children cannot find better paid work. In this way, generations of the same family remain poor.

The same cycle that traps individuals can trap a whole population. Economic growth depends on investment. Investment money comes from savings. A nation that has almost no savings cannot grow economically. This keeps wages low, so again people cannot save and the cycle continues.

## E Comprehension

Now read the text again and answer the questions.

- Poverty is ...
  - only found in developing countries.
  - mostly in industrialised countries.
  - found in both developing and industrialised countries.
- What number of people live in extreme poverty?
  - three billion
  - two billion
  - one billion

- How can relative poverty be explained?
  - It takes into account that there are rich people.
  - It's a kind of poverty found in industrialised countries.
  - It's a kind of poverty only experienced in Britain.
- What cause of poverty is *not* mentioned in the text?
  - war
  - lack of natural resources
  - natural disasters
- Why can't people escape from the poverty trap?
  - Because they refuse to send their children to school.
  - Because they need any income their children can earn.
  - Because governments don't provide free education.
- According to the text, why are countries often trapped in a poverty cycle?
  - There is no money for investment.
  - There are no schools.
  - The land is not good for growing crops.

## Before you listen

Discuss these questions with your partner.

- What do you think are the possible results of living in poverty?
- In what ways does poverty affect people's lives?

## F Listening

Now listen and complete the notes.

### Health

Poor people (1) ..... younger.

Life expectancy is (2) ..... years shorter.

(3) ..... is more common.

### Family

Teenage girls are more likely to (4) .....  
.....

(5) ..... are more common.

(6) ..... rates are higher.

### Education and training

Children drop out of (7) .....  
earlier.

No (8) ..... at work.

## G Speaking

Discuss this question with your partner.

- Do you think it is possible to share wealth equally?

### Task

Give a two-minute talk on the subject of poverty. First read text 2 again and make notes below on the following.

- ways of measuring poverty
- striking facts about poverty in the world today
- where poverty exists
- causes of poverty
- how poverty affects people's lives
- the poverty trap

Notes:

### Pronunciation guide

**Inequality** /ɪnɪkwələti/

**Modernised** /mədənaɪzd/

**Precious** /preʃəs/

**Jewel** /dʒuəl/

**Lorenz curve** /ləʊnz kɜ:v/

**Poverty** /pɒvəti/

**Associate** (v) /ə'səʊʃieɪt/

**Corruption** /kə'rʌpʃn/

**Drought** /draʊt/

**Flood** /flʌd/

**Schooling** /sku:liŋ/

## H Writing

Write a report describing the charts on pages 56 and 57.

First, read text 1 again. Then look carefully at figure 1 and figure 2. Use the outline plan to help you. Remember to include the following language:

The chart shows ...

It is clear from the figures that ...

The majority of the population ...

A very small percentage of the population ...

about / approximately / almost

a quarter / half / a third

In comparison ...

In contrast ...

is owned by ...

earn ...

### Report

#### PARAGRAPH 1

**Introduction.** Say generally what the charts are about - use the titles to help you.

**Begin like this:** These charts show how wealth and income are distributed in the UK. Figure 1 shows ...

#### PARAGRAPH 2

**Describe figure 1 in more detail.** Say how much of the wealth the top one per cent own. Compare this with the bottom 50 per cent.

**Begin like this:** Figure 1 shows how unfairly wealth in the UK is shared out. You can clearly see from the chart that ...

#### PARAGRAPH 3

**Describe figure 2 in more detail.** Describe the *perfect distribution* shown by the blue line. Give examples from the chart. Describe the real distribution shown by the red line. Give examples from the chart. Say how much of the total income the lowest 40 per cent earn. Say how much of the total income the top 30 per cent of the population earn.

**Begin like this:** Figure 2 compares perfect distribution of income with real distribution in the UK. The blue line shows what happens if income is evenly distributed ...

#### PARAGRAPH 4

**Conclusion.** Explain briefly what the figures show about the UK economy.

Write 200-250 words

# Unit 12

## Before you read

Discuss these questions with your partner.

- *Micro* means small and *macro* means large. What do you think *macroeconomics* is?
- How is it different from *microeconomics*?



## Reading 1

# Macroeconomics

In the 1930s one of the world's strongest economies suffered a devastating collapse. It was the American economy, and the disaster was the Great Depression. The effects of the Great Depression were felt all around the world, and it brought about a change in economic thinking. Economists began to realise that looking at the behaviour of individual consumers and suppliers in the economy was not enough. Economists and governments had to understand how the whole economy worked. In other words, they had to have an understanding of macroeconomics.

Microeconomics looks at how the details of the economy work. Macroeconomics takes a few steps back and looks at the whole picture. While microeconomics looks at supply and demand for a single product or industry, macroeconomics follows supply and demand patterns for the whole economy. Whereas microeconomics is about economic events *at home*, macroeconomics looks at how the domestic economy interacts with the economies of other countries.

However, macroeconomics isn't only about knowing what's happening in the economy. After the shock of the Great Depression, governments realised that an economy needs to be managed. Most governments aim to have steady economic growth, to control inflation and to avoid recessions. Just managing an individual business is a hard enough task. How do you manage a whole economy? Governments have certain *mechanisms* which help them to do this.

## A Vocabulary

Match the words and phrases with the definitions.

- |                        |   |
|------------------------|---|
| 1 devastating collapse | A something that happens  |
| 2 fiscal policy        | B a method or tool for doing something                              |
| 3 domestic             | C control of spending through taxation                              |
| 4 steady growth        | D money you have to spend after paying tax                          |
| 5 monetary policy      | E a serious slowing down of the economy                             |
| 6 recession            | F at a slow, unchanging rate  |
| 7 mechanism            | G move around   |
| 8 disposable income    | H control of the cost of borrowing and movement of money in economy |
| 9 interest             | I the members of the population able to work                        |
| 10 circulate           | J something you know will happen                                    |
| 11 depression          | K complete destruction  |
| 12 predictable         | L the cost of borrowing money                                       |
| 13 event               | M not foreign   |
| 14 workforce           | N a very bad period for the economy                                 |



The first of these mechanisms is *fiscal policy*. Fiscal policy refers to the tax system and to government spending. By increasing or decreasing the amount of tax people must pay, the government can affect how much money people have available to spend (*disposable income*). This, in turn, has an effect on demand in the market. By increasing or decreasing their own spending, governments can have a huge effect on the growth of the economy.

The second mechanism is *monetary policy*. With its monetary policy, a government sets interest rates and also controls the amount of money that circulates in the economy. The interest rate the government sets influences the rate that commercial banks set when they lend money to customers. Interest rates have a big impact on the economy. For example, they can affect people's decisions about saving or spending money.

The third mechanism is *administrative approach*. This is a range of things that governments do to increase the supply of goods and services to the economy but without increasing prices. There are a number of ways governments try to do this. For example, improvements in education and training can make the workforce more productive. Investment in technology can make industry more efficient. Governments can also change employment and business laws to make the market more competitive.

With a combination of these methods, governments try to *steer* or guide the economy on a steady and predictable path. They aim for gradual economic growth and to avoid disasters like the Great Depression.

## B Comprehension

Now read the text again and answer the questions.

- Which countries were affected by the Great Depression?
  - only America
  - just America and Europe
  - the whole world
- Which of the following is interested in foreign economies?
  - microeconomics
  - macroeconomics
  - both micro and macro economics
- The three different mechanisms which governments use are ...
  - all concerned with how much money people have to spend.
  - aimed at improving education and training.
  - all different ways of managing an economy.
- Which mechanisms involve changing interest rates?
  - fiscal policy
  - monetary policy
  - administrative approach
- Which mechanisms might involve creating job training schemes for school leavers?
  - fiscal policy
  - monetary policy
  - administrative approach
- What do governments want to achieve with their macroeconomic policies?
  - to predict what will happen in the economy
  - to create steady economic growth
  - to combine different paths for economic growth

## Before you listen

Discuss the following with your partner.

You're going to hear about the Great Depression - the worst economic recession in recorded history. Before you listen, see if you can put these events in the order that they happened.

- the economy began to recover
- companies produced more goods for future demand
- World War 2 began
- people started selling their stocks and shares
- the stock market crashed
- people lost jobs and farmers left their farms
- people borrowed money to invest in stocks and shares
- demand began to fall

## C Listening

Now listen and check your answers.

## Before you read

Discuss the following with your partner.

- In some ways, running a large economy is like running a small business. What do you think are the similarities and what are the differences?

## D Vocabulary

Complete each sentence with a word or phrase from the box.

■ aggregate ■ availability ■ behave  
■ exports ■ long run ■ predict  
■ required ■ short run ■ trend

- The price of a flight often depends on the ..... of seats.
- Technology is making it easier and easier to ..... changes in the weather.
- When talking about the ....., we mean the total.
- Some people ..... very differently when they go abroad.
- The ..... means in the next few weeks or months.
- The ..... means in the coming years or decades.
- China's ..... include all kinds of manufactured goods.
- A lot of raw materials ..... for manufacturing are imported.
- Prices are still following a ..... to increase.

## Reading 2

# Aggregate demand and aggregate supply

When a company makes plans for how much to produce and what prices to set, it needs information. The company needs to predict the level of supply that will be required to meet demand. It needs to set prices that will keep the business running. In the same way, governments need this information for the whole economy. The total level of demand for all products and services is called the *aggregate demand*. The total supply is called the *aggregate supply*.

The demand for products and services is how much is wanted. For a company, the demand comes from customers. For a whole economy, things are a little more complicated. Demand in the whole economy comes from the following:

- from consumers, because they buy products and services (consumption)
- from companies, because they invest money to build factories and buy machines (investment)
- from the government, because they spend money on services and projects (government spending)
- from exports, because these are sales to customers in other countries (export)

Figure 1: Aggregate Demand

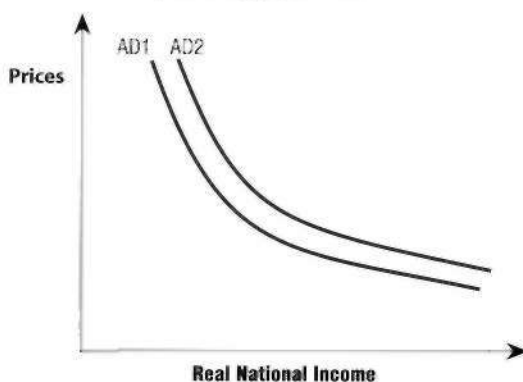


Figure 2: Aggregate Supply





Although aggregate demand is made up of many things, it *behaves* in the same way as demand for a single product. For example, demand rises when incomes rise. The same applies to aggregate demand. Similarly, demand falls as prices rise. The same is true for aggregate demand. You can see this relationship shown in figure 1 on page 63. The vertical axis shows prices. The horizontal axis shows real national income. Real national income is the value of all the services and products produced by the whole economy. It's calculated in the same way as aggregate demand (consumption, investment, government spending and exports). You can see from the curve that national income (and therefore aggregate demand) increases as prices fall.

Changes in any of the four things which make up aggregate demand will cause a shift in demand. For example, if the government decides to spend a huge amount of money on building new hospitals and schools, this will have an effect on the whole economy. Aggregate demand will increase at all price levels. This is shown in aggregate demand curve 2 (AD2) in figure 1.

The supply curve for an individual product or service is very simple. As the company increases its supply to the market, it increases the price. But what about aggregate supply for the whole economy? This is more complex. In the short run, aggregate supply follows the same trend as the supply for a single product. Supply rises as prices rise. However, the long run is different. In the long run, supply is not affected by price. In the long run, production is limited by the factors of production. In other words, what a country can supply depends on the number of factories it has, the number of people working and the availability of raw materials. This is why the long run supply curve in figure 2 on page 63 is a straight line.



## E Comprehension

Now read the text again and match each paragraph with the correct heading.

PARAGRAPH 1 .....

PARAGRAPH 2 .....

PARAGRAPH 3 .....

PARAGRAPH 4 .....

PARAGRAPH 5 .....

- A What aggregate demand includes
- B Two types of aggregate supply curve
- C The relationship between aggregate demand and price
- D Why are aggregate supply and demand important to governments?
- E What causes aggregate demand to shift?

## Before you listen

Discuss the following with your partner.

The gross domestic product (GDP) is a way of measuring the income of a whole nation.

- How do you think GDP is calculated?
- Why do you think some countries have a larger GDP than others?
- Which countries in the world do you think have a large GDP?
- Which ones have a small GDP?

## F Listening

Now listen and complete the summary.

The gross domestic product is the total value of all the (1) ..... supplied by a country during a whole (2) ..... . It is often called the (3) ..... . It is a way for the government to measure the economic (4) ..... of the country. The GDP per capita is the GDP divided by the number of (5) ..... . It is a useful measure of a nation's (6) ..... . In 2005, Luxembourg had a per capita GDP of \$ (7) ..... . In the same year, the figure for Burundi was only \$ (8) ..... .



## G Speaking

Discuss these questions with your partner.

- Why is it important for a country to have steady economic growth?
- The GDP of a country is sometimes used to measure standard of living. Do you think this is a good measure for standard of living? Why / Why not?

### Task

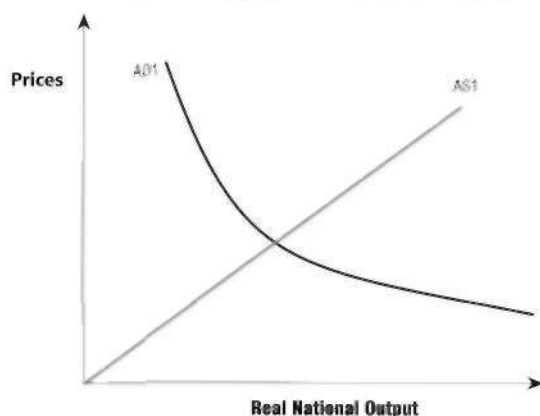
Work in groups of three or four. The diagram below shows the aggregate demand and aggregate supply curves for a country. Talk to each other about how the curves could change for each of these situations.

- the government decides to spend billions of pounds on road building
- there is a large increase in the price of petrol
- the government increases income tax rates by five per cent
- wages increase a lot

Use the space below to write your notes.

Notes:

Figure 1: Aggregate Demand and Supply



## H Writing

Imagine you're a farm worker in America in the 1930s. You've just lost your job because of the Great Depression. Write a letter to your cousin in Russia.

Look back at the unit and make notes before you start.

### Letter from history

Dear [your cousin's name],

#### PARAGRAPH 1

Tell your cousin the bad news about losing your job and what difficulties you're facing.

**Useful words and phrases:** made redundant, struggle to get by, landlord demanding rent, bills to pay, go into debt

#### PARAGRAPH 2

Explain the situation in America: how the stock market crash happened, the Depression. Read the notes from C Listening on page 62.

**Useful words and phrases:** stock market, crash, fall in demand for produce, businesses closing down

#### PARAGRAPH 3

Explain what life is like in America now, especially for farmers and farm workers.

**Useful words and phrases:** high unemployment, families struggling to get by, people depressed, people leaving their homes for the city

#### PARAGRAPH 4

Say what you plan to do to find work.

**Here are some ideas:** move to the city to find work, join the army, try to sell something valuable you own and buy a ticket to Europe.

Sign off

Write 100-150 words

#### Pronunciation guide

**Devastating** /devə'steɪtɪŋ/

**Fiscal** /fɪskl/

**Mechanism** /mekə'nɪzəm/

**Monetary** /mə'nɪtri/

**Recession** /rɪ'se[n/

**Availability** /ə'veɪlə'bɪləti/

**Axis** /æksɪs/

## Revision Vocabulary

## Units 9 to 12

- A1** Match words from box A to words in box B to make expressions we use in economics. You can use words in box B more than once.

A

■ absolute ■ aggregate ■ disposable  
 ■ fiscal ■ income ■ mixed ■ monetary  
 ■ pension ■ poverty ■ public ■ relative

B

■ demand ■ gap ■ goods ■ income  
 ■ policy ■ poverty ■ scheme ■ trap

- A2** Now match the expressions to their meanings.

- services that the government provides because no one else will .....
- services and goods that the government provides because they are good for us .....
- not having enough money to survive .....
- to be much poorer than other people in the same country .....
- the government's decisions about taxation and spending .....
- the government's decisions about interest rates and money in the economy .....
- the money you can spend after you have paid tax .....
- a situation in which it is impossible to escape from being poor .....
- all the services and goods that are bought in the economy .....
- a way to save money for old age .....
- the difference between the highest earners and the lowest earners .....

- B** The words in bold in this newspaper story have been wrongly printed. Put the letters in the correct order to make the right word.

## Economic hard times set to continue

The government released more gloomy economic figures today. Unemployment has risen again this month, and now ten per cent of the (1) **krowforec** are without a job. At the same time, the Bank of England has said that (2) **vinnetmest** by companies has decreased dramatically. 'Businesses simply don't want to be involved in (3) **srki-agtkni** when the economy is like this,' commented John Cash, a senior director with the bank.

But the people worst affected are the unemployed and their families. Many are now spending their life (4) **gisvans** in order to survive. Government Minister, Alison Wellby said yesterday that, 'The (5) **frelwae** of ordinary people is our most important concern'. To prove this, the government has promised to increase spending on (6) **frantres** payments such as unemployment (7) **fitsbeen**. However, this could be a sign that the (8) **cresseion** will probably continue into next year. It seems that even in the (9) **glon nur** things are not looking good.

- C** Find ten words in the square connected with buying and selling.

d	w	h	o	l	e	s	a	l	e	r	c	b	s
k	i	d	g	c	e	x	s	t	r	e	o	q	h
v	k	s	w	r	b	e	w	r	b	j	n	n	a
u	v	w	c	b	i	d	g	c	e	d	s	k	r
d	r	b	j	r	g	z	m	e	c	t	u	v	e
s	t	t	u	k	i	t	w	r	b	j	m	u	s
o	a	x	a	v	n	m	a	r	k	u	p	d	e
e	u	z	z	u	j	h	i	z	u	j	t	s	b
l	z	u	j	h	e	z	u	n	b	l	i	o	a
g	c	e	x	t	r	e	w	b	a	k	o	e	r
r	e	t	a	i	l	e	r	s	v	t	n	p	g
t	r	e	w	t	r	e	w	b	l	d	i	i	a
g	c	a	u	c	t	i	o	n	s	s	g	o	i
i	n	e	q	u	a	l	i	t	y	c	e	d	n

# Unit 13

## Before you read

Discuss these questions with your partner.

- What is money?
- Can anything be used as money?
- Could stones and leaves be used instead of coins and notes?



## A Vocabulary

Choose the correct word or phrase.

- 1 One reason why people buy gold is because it **holds its value / is taken for granted**.
- 2 When we buy things, we **swap / represent** money for goods.
- 3 Diamonds are valuable because they are so **intrinsic / rare**.
- 4 The dollar is the **cash / currency** of the USA.
- 5 When people **barter / guarantee** goods, they simply exchange one good for another.
- 6 Banks will only lend to people who can **guarantee / barter** to pay back the loan.
- 7 Some shops won't accept credit cards. They will only take **cash / currency**.
- 8 When something **holds its value / is taken for granted** people don't think it has great value.
- 9 Coins and notes are used to **swap / represent** value.
- 10 Metals have **intrinsic / rare** value because they can be used to make things.
- 11 If money can easily be moved around and used we say it has **liquidity / currency**.
- 12 Centuries ago people paid using **commodity money / fiat money**, such as gold and silver.
- 13 **Commodity money / Fiat money**, like banknotes and coins, has no intrinsic value. It only represents value.

## Reading 1

### Money

The cash we use every day is something we take for granted, but for thousands of years people traded without it. Before money was invented, people used a system called *bartering*. Bartering is simply swapping one good for another. Imagine that you have milk, for example, and you want eggs. You simply find someone who has eggs and wants milk - and you swap! However, you can see that this isn't a very convenient way to trade.

First of all, you can't be sure that anyone will want what you've got to offer. You have to hope that you'll be lucky and find someone who has what you want and that he or she wants what you've got. The second problem with bartering is that many goods don't hold their value. For example, you can't keep your milk for a few months and then barter it. Nobody will want it!

After some time, people realised that some goods held their value and were easy to carry around and to trade with. Examples were metals like copper, bronze and gold and other useful goods like salt. These are examples of *commodity money*.

With commodity money, the thing used for buying goods has inherent value. For example, gold has inherent value because it is rare, beautiful and useful. Salt has inherent value because it makes food tasty. If you could buy things with a bag of salt, it meant you could keep a store of salt and buy things anytime you needed them. In other words, commodity money can store value.

Using commodity money was much more convenient than ordinary bartering, but it still had drawbacks. One of these drawbacks is that commodity money often lacks *liquidity*. Liquidity refers to how easily money can circulate. There is obviously a limit to how much salt you can carry around! There's another problem with commodity money: not everyone may agree on the value of

the commodity which is used as money. If you live by the sea, salt may not be so valuable to you. Money needs to be a good *unit of account*. In other words, everyone should know and agree on the value of a unit. This way, money can be used to measure the value of other things.

The solution is to create a kind of money that does not have any real intrinsic value, but that represents value. This is called *fiat money*. The coins and notes that we use today are an example of fiat money. Notes don't have any inherent value - they are just paper. However, everyone agrees that they are worth something. More importantly, their value is guaranteed by the government. This is the reason why pounds and dollars and the world's other currencies have value.

## B Comprehension

Complete the table with information from the text.

	Examples	Advantages	Disadvantages
Bartering	swapping eggs for milk	simple to understand	not (1) ..... way to trade goods don't (2) .....
Commodity Money	(3) ..... and (4) .....	allows you to store (5) .....	not (6) ..... agrees on its value lack of liquidity means money can't (7) ..... easily
Fiat Money	(8) ..... and (9) .....	value is (10) ..... by the government	

## Before you listen

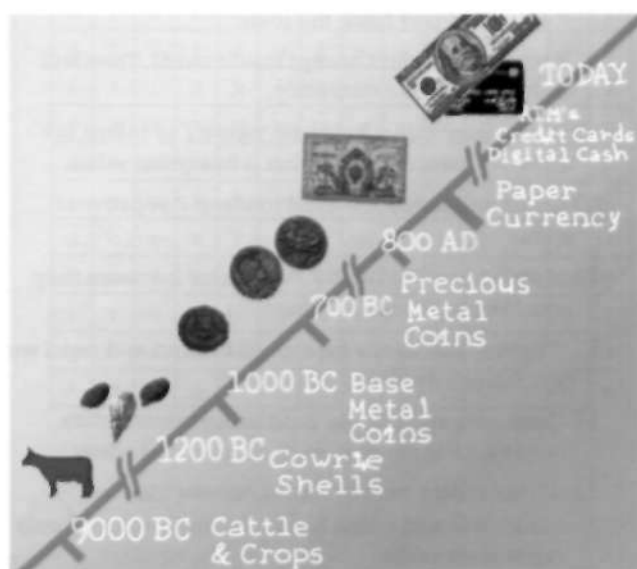
Discuss the following with your partner.

You're going to listen to someone talking about the history of money. Before you listen, read through the statements below. Do you think they are true or false?

- The earliest kind of money was used about 3,000 years ago. T ☐ / F ☐
- Shells were used as a kind of fiat money. T ☐ / F ☐
- The first metal coins appeared in Greece. T ☐ / F ☐
- The first coins were round. T ☐ / F ☐
- Paper money first appeared in China. T ☐ / F ☐
- The idea of paper money travelled quickly to Europe. T ☐ / F ☐

## C Listening

Now listen and check your answers.



# Before you read

Discuss the following with your partner.

- What do banks do? Work with a partner to make a list of all the services that banks provide. Then compare your list with others in the class.

## D Vocabulary

Complete each sentence with a word or phrase from the box.

- accessible ■ ATM ■ compensate
- deposit ■ make a living ■ reliable
- security ■ sensible ■ transfer
- withdrawal

- 1 As ....., against possible burglaries, they installed alarms.
- 2 Some people aren't very ..... with their money and they waste it on useless things.
- 3 If you are injured at work, you may get money to ..... for losing your salary.
- 4 If something is ....., you can trust it to work properly.
- 5 ..... things are easy to reach or to get.
- 6 When you ..... things you move them from one place to another.
- 7 An ..... is a machine that gives customers money when the bank is closed.
- 8 Most people have to work in order to .....
- 9 When you make a ....., you put money into your account.
- 10 When you make a ....., you take money out of your account.



## Reading 2

# Banks

If you work, you've probably got a bank account. You could keep the money you earn each month in a box under your bed, but it wouldn't be very sensible. One reason is that it's not very safe. If your house gets burgled, you'll lose everything you've saved. Another reason is that your money will lose value.

As prices rise, the money in a box under your bed will be able to buy fewer and fewer things. Money in a bank savings account, however, will earn interest. The interest will help compensate for the effect of inflation. But banks are more than just safe places for your money. What other services do they offer?

The other main service is lending money. Individuals and businesses often need to borrow money, and they need a lender that they can trust. This is exactly what banks are - reliable lenders. In fact, most of the money that people deposit in their bank accounts is immediately lent out to someone else.

Apart from storing and lending money, banks offer other financial services. Most of these are ways of making money more accessible to customers. For example, banks help people transfer money securely. They give customers cheque books and credit cards to use instead of cash. They provide ATM machines so that people can get cash any time of the day or night.





But how do banks make a living? Basically, they make a living by charging interest on loans. Of course, when you make a deposit into a bank savings account, the bank pays you interest on that money. However, the rate they pay savers is less than the rate they charge borrowers. The extra money they make by charging interest on loans is where banks earn most of their money.

For banks, interest is also a kind of security. Sometimes people do not pay back money they borrow. This is called *defaulting on a loan*. When someone defaults on a loan, the bank uses money earned from interest to cover the loss.

All of this means that most of the money people have saved in the bank is not there at all! A small amount of the total savings is kept by the bank so that customers can make withdrawals. The rest, however, is made available for loans. The amount that is kept is called the *reserve*. The reserve must be a certain percentage of all the savings received from customers - for example 20 per cent. This figure is set by the central bank, and this is one of the ways that governments can control the amount of money circulating in the economy.

## E Comprehension

Now read the text again and answer these questions in your own words in the space provided below.

- 1 What two reasons are given for saving your money in a bank account?
- 2 Why do people prefer to borrow money from banks?
- 3 Do banks do anything else for their customers other than store and lend money?
- 4 How do banks earn money?
- 5 Who decides how much money the bank keeps in reserve?

Notes:

## Before you listen

Discuss these questions with your partner.

If a bank note is not real, we call it a *fake* or *counterfeit* note.

- How do you know if a banknote is real or not?
- What can banks do to make people trust their notes and coins?

## F Listening

Look at these notes about whether a ten-pound note is genuine or not and see if you can guess what goes in the gaps.

Paper is very (1) .....

The words (2) ..... are raised from the paper.

There should be a strip of (3) ..... in the middle of the note.

There is a watermark of the (4) .....

There is a hologram which shows a picture of Britannia, who was a (5) ....., and the (6) .....

With a magnifying glass you can see the word (7) ..... written in tiny microlettering.

If you put the note under fluorescent light, a bright (8) ..... number ten will appear.

Now listen and check your answers.





## G Speaking

Discuss these questions with your partner.

- Can you imagine life without money?
- What are the dangers of using a credit card to pay with instead of money?
- What do you know about digital money?

### Task

Give a two-minute presentation on the history of money. First, read through text 1 again and make notes below on the following.

- bartering
- commodity money
- fiat money

You can also include recent developments not mentioned in the text, such as credit cards and digital money.

Notes:

### Pronunciation guide

**Liquidity** /lɪkwɪdətɪ/

**Copper** /kʌpə(r)/

**Accessible** /ək'sesəbl/

**Deposit** (n) /drɪpəzɪt/

**Withdrawal** /wɪð'drɔːl/

**Borrower** /bɒrəʊə(r)/

**Default** /dɪfɔːlt/

**Bartering** /bɑːtərɪŋ/

**Fiat** /fiːt/

## H Writing

Write a promotional leaflet for a bank. The aim of the leaflet is to attract new customers and to inform existing customers about the services the bank offers.

Use an informal, friendly style like you see in advertisements. Organise the leaflet using the plan shown here.

### Promotional leaflet

#### PARAGRAPH 1

Give a brief history of the bank and say how big it is today (to give confidence to customers).

#### PARAGRAPH 2

Explain what your main services are, and what advantages you offer compared to other banks (for example, interest rates).

#### PARAGRAPH 3

Say what other services you offer and how they can be useful to your customers: for example, special savings schemes for certain people (students / pension schemes for workers) and Internet banking.

#### PARAGRAPH 4

Say how customers (or potential customers) can contact the bank (e-mail, web page, phone number, local branches, etc).

Write 200-250 words



# Unit 14

## Before you read

Discuss these questions with your partner.

- What taxes do people pay in your country?
- Are the taxes fair? Why / Why not?

- |                |               |              |
|----------------|---------------|--------------|
| 1 A transport  | B education   | C defence    |
| 2 A components | B allowance   | C policy     |
| 3 A income     | B components  | C capacity   |
| 4 A absolute   | B complete    | C full       |
| 5 A full       | B disposable  | C spending   |
| 6 A allowance  | B surplus     | C capacity   |
| 7 A personal   | B public      | C disposable |
| 8 A surplus    | B shortage    | C allowance  |
| 9 A employment | B income      | C capacity   |
| 10 A path      | B motorway    | C railway    |
| 11 A component | B project     | C scheme     |
| 12 A surplus   | B progressive | C public     |

## A Vocabulary

Choose the correct answer A, B or C from the list opposite.

- 1 The ..... department of the government looks after roads, railways and airports.
- 2 The government hopes its ..... will help reduce unemployment.
- 3 The parts that something is made of are sometimes called .....
- 4 ..... employment is when everyone who can work has a job.
- 5 The money that you have after you've paid taxes is called your ..... income.
- 6 The part of a person's salary that is not taxed is called their personal .....
- 7 The government plans many new ..... projects, such as building new hospitals and schools.
- 8 Another word for extra goods that are not needed is .....
- 9 When the economy is working at full ....., it is using all its resources for production.
- 10 A ..... is a large, fast road which connects cities.
- 11 A ..... is a plan for achieving something.
- 12 In a ..... tax system, people who earn more pay more tax than people who earn less.



## Reading 1

### Fiscal policy

As we saw in unit 12, fiscal policy is one of the tools that governments have to keep the economy on a steady path. The two main components of fiscal policy are changes to the tax system and changes in government spending. But what changes can governments make in these two areas, and how do changes affect the growth of the economy?

Let's look first at the tax system, and in particular at income tax. Income tax is one of the biggest sources of income for a government. Many

governments operate a system called *progressive taxation*. This means that the more you earn, the more tax you pay. People are usually allowed to keep some of their income without paying any tax. This is called the *personal allowance*. The rest of their income is then taxed using the progressive system. For example:

Income before tax	Personal allowance	Tax to pay after allowance
£0 - £1,999		10%
£2,000 - £29,999	£5,000	22%
£30,000 and over		40%

Governments can decide to change the size of the personal allowance, or change the percentage that each income group has to pay. If the economy is growing too fast, and demand for goods and services is more than the economy can supply, the government will want to slow down spending.

To do this, they can decrease the personal allowance, or they can increase the percentage to pay in tax. This will mean people have less disposable income, and spending will slow down. If the economy is slowing down too much, governments can do the opposite.

What about government spending? How does that affect economic growth? The key to this is something called the *multiplier effect*. To understand how this works, let's look at an example. Imagine that the economy is not growing. This will make aggregate demand fall. In turn, productivity falls. This situation means that the nation's resources are not all being used. In other words, there are surplus raw materials, machines are not being used and workers are unemployed. What the economy needs is a *pull* in demand for goods and services.

The government can provide this pull by spending a large amount of money on public projects. For example, imagine that the transport department decides to spend £200 million on building a new motorway. This will give work to building companies and jobs to unemployed workers. In other words, more resources are being used and the nation's productivity is increased.

Companies and workers on the motorway project will save some of the money they earn, but also spend some. The money they spend will be

income for others in the economy. If half of the £200 million is spent, then the total national income has grown by this much:

$$£200 \text{ million} + (0.5 \times £200 \text{ million})$$

Each time a proportion of the income is passed on, the economy grows again:

$$£200 \text{ million} + (0.5 \times £200 \text{ million}) + (0.5 \times £100 \text{ million}), \text{ etc}$$

In theory, the multiplier effect will continue until there is full employment and the nation's resources are being used to their fullest extent.



## B Comprehension

Now read the text again and answer these questions in your own words.

- 1 What are the two tools of fiscal policy?
- 2 What is someone's personal allowance?
- 3 What will the government do to taxes if the economy is slowing down?
- 4 How can the government create more demand in the economy?
- 5 When does the multiplier effect stop working?

## Before you listen

Discuss these questions with your partner.

- What do you think makes a good tax?
  - Which four things listed below do you think are the most important?
- 1 It's easy to collect.
  - 2 It's paid often.
  - 3 It's easy to understand.
  - 4 It's not paid too often.
  - 5 It's a low percentage of income.
  - 6 It's easy to pay.
  - 7 It's fair.
  - 8 It's large enough for the government to use.



## C Listening

Now listen to someone talking about Adam Smith's four rules for good taxation. Which four ideas from the list above are mentioned?

## Before you read

Discuss the following with your partner.

- Sometimes people feel like spending money.  
Other times they prefer to save their money.  
Why is this?

### D Vocabulary

Complete each sentence with a word or phrase from the box.

- central bank ■ commercial banks
- confident ■ credit ■ exchange rate
- expand ■ frequently ■ impact
- mortgage ■ proportion ■ repayments

- 1 We have to pay our bills too ..... in my opinion!
- 2 A country's ..... is the government bank.
- 3 The ..... are the high street banks that everyone uses.
- 4 When a loan is taken out, usually each month ..... have to be made.
- 5 A ..... is a special loan for people who want to buy a house.
- 6 When you feel ..... you feel sure that what you are doing is safe.
- 7 Many people these days buy things on ..... instead of paying in cash.
- 8 A large ..... of people use banks to deposit their savings.
- 9 The ..... compares the values of different currencies.
- 10 If a company wants to ..... to move into new markets for example, it will need to borrow money.
- 11 High interest rates have an ..... on the consumer's ability to buy a new home.



### Reading 2

## Monetary policy

*Monetary policy* is another tool that governments use to control the economy. Monetary policy mainly involves making changes to the interest rate. It can also involve changing the amount of money that circulates round the economy. However, this second kind of monetary policy isn't used very often because it can lead to inflation. Changing interest rates, on the other hand, is a method that is used quite frequently for slowing down or speeding up the economy. So how does it work?

Basically, commercial banks - the ones that you and I use to keep our savings in and to borrow from - borrow their money from the country's central bank. This is the national or government bank, and it has the power to set interest rates. The interest rate of the central bank will influence the rates commercial banks set for their customers. When interest rates go up, borrowing money becomes more expensive. When they go down, it becomes cheaper.

People get loans from banks for all sorts of reasons, but the biggest loan most people take out is to buy a house. This kind of loan is called a *mortgage*. When interest rates increase, mortgages become more expensive. People who already have a mortgage will need to pay more on their repayments, and will have less money to spend on other things. Fewer people will want to buy new houses and house prices will fall.



In turn, home owners will feel less confident about their own wealth and will spend less. As a result, the economy slows down. A fall in interest rates will have the opposite effect on the house buying chain.

Consumers also buy other things using borrowed money. This is called *buying on credit*, and interest rates will also affect how much people spend on credit. Purchases made using credit cards are now a huge proportion of total spending in many countries. This means that interest rate changes have a big impact on consumer spending and the economy as a whole.

Companies, too, are affected by interest rate changes. When interest rates are low, they feel more confident about investing in order to expand their business. Low interest rates will encourage them to take out loans in order to build factories, buy machines and increase production. All of this increases the size of national output. Again, higher interest rates will have the opposite effect.

Finally, interest rates can have an effect on the amount of exports a country sells. This is because the value of a currency (the exchange rate) often falls when the interest rate falls. When the value of a currency falls, a nation's products and services become cheaper for customers from other countries. This increases export sales, and more money comes into the economy. And, of course, a rise in interest rates will mean a rise in the exchange rate. This will reduce export sales, and reduce the total output of the economy.

### PARAGRAPH 3

- A** High interest rates are good for the housing market.
- B** Mortgages are the most common type of loan.
- C** High interest rates are bad for the housing market.

### PARAGRAPH 4

- A** Interest rates influence consumer spending.
- B** In every country the proportion of credit card holders is high.
- C** Most people borrow money with their credit card.

### PARAGRAPH 5

- A** Businesses invest more when interest rates are low.
- B** National output drops when interest rates are low.
- C** Business investment is not affected by interest rates.

### PARAGRAPH 6

- A** How much a country exports affects the interest rate.
- B** The interest rate can affect exports.
- C** A rise in exports reduces the total national income.

## Before you listen

Discuss the following with your partner.

Every solution to a problem has its drawbacks. What do you think are the disadvantages of fiscal and monetary policy? Think about:

- changes in people's behaviour
- length of time policies need to take effect

## E Comprehension

Now read the text again and choose the sentence which best summarises each paragraph.

### PARAGRAPH 1

- A** Changing interest rates is the most common type of monetary policy.
- B** Governments never change the amount of money circulating in the economy.
- C** Changing interest rates increases the amount of money in the economy.

### PARAGRAPH 2

- A** The commercial banks set exactly the same interest rate as the central bank.
- B** The central bank controls all other commercial banks.
- C** The central bank influences the interest rates of other banks.

## F Listening

Now listen and choose the best way to complete each sentence.

- 1 One problem with macroeconomic policy is that ...

- A** people never do what you want.
- B** you can never be sure how people will act.
- C** you can't stop people spending.

- 2 An increase in government spending may make people ...

- A** spend more.
- B** work harder.
- C** save more.



3 Another problem with macroeconomic policy is that ...

- A it costs money.
- B it takes time.
- C it almost never works.

## G Speaking

Discuss these questions with your partner.

- Do you believe people really think about the interest rate when they decide to save or spend money?
- What affect do you think taxes have on the way people work?

## Task

Give a two-minute talk on monetary policy. First read through text 2 again and make notes below about the following.

- the *tools* of monetary policy that the government can use
- how interest rates affect ...
  - house buying
  - consumer spending
  - business investment
  - exports

Notes:

## Pronunciation guide

Allowance /ə'laʊəns/

Taxation /tæk'seɪʃn/

Circulate /sɜːkjəleɪt/

Mortgage /mɔːgɪdʒ/

## H Writing

Imagine you run a business which has customers at home and abroad. Things are going well, and to make things better, the government has just announced a drop in interest rates. This is a good time to get a loan and invest in your business. Write a letter to your bank manager asking for a business loan.

## Formal letter

Use this plan to help you.

### INTRODUCTION

Dear Mr/Mrs/Miss [give a name],  
Say briefly why you're writing.

#### Useful words and phrases:

I am writing to request ...  
I would be grateful if you could ...

### PARAGRAPH 1

Explain what your business is. Say how much you want to borrow.

#### Useful words and phrases:

I run a ... company which ...  
I would like to borrow approximately ...

### PARAGRAPH 2

Explain why now is a good time to expand: (increasing sales / interest rate cut and its effect on the economy).

#### Useful words and phrases:

The reason why ... I believe this is the right time because ...  
It would be sensible to take advantage of ...

### PARAGRAPH 3

Say how you will spend the money.

#### Useful words and phrases:

I intend to spend the money as follows ...  
The majority of the money will be needed for ...  
In addition, some of the funds will be spent on ...

### PARAGRAPH 4

Ask for details about the loan: How long can you borrow for? What will the interest rate be?

#### Useful words and phrases:

Could you tell me how ...  
I would be grateful if you could let me know ...

### CONCLUSION

Sign off politely

#### Useful words and phrases:

I look forward to hearing from you soon ...  
Yours sincerely,

Write about 200 words



# Unit 15

## Before you read

Discuss these questions with your partner.

- Why do banks charge interest on loans?
- Why do banks pay interest on savings?
- How often do interest rates change?
- Why do you think they change?

## A Vocabulary

Match the words and phrases with the definitions.

- |                   |   |
|-------------------|---|
| 1 purse           | A when there is not enough of something                 |
| 2 cash till       | B where a store of bank's money is kept                 |
| 3 form            | C to make sure  |
| 4 willing         | D an advantage  |
| 5 a plus          | E has to  |
| 6 target          | F prepared to do  |
| 7 reserve account | G say formally  |
| 8 to ensure       | H place in shop where money is kept                     |
| 9 shortage        | I kind (of)   |
| 10 obliged        | J something you aim to achieve                          |
| 11 state          | K a way to invest money by lending it to the government |
| 12 securities     | L small bag to keep money in                            |



## Reading 1

# Interest rates and the money market

Economic growth is a plus, but, like all good things, it's best not to have too much at once. If the economy grows too rapidly, the result can be inflation. Steady growth is best, and governments use fiscal and monetary policy *tools* to achieve this. For example, they set interest rates in order to control borrowing and investment. However, the government can't just state, 'today's interest rate is four per cent' and expect all the other banks to follow. As usual, things are a bit more complicated!

The interest rate is not really set by the government at all, but by the levels of demand and supply of money in the money market. Imagine that money is like any other commodity, and the price of money is the interest rate. Banks can charge any interest rate that customers are willing to pay. If there is a limited amount of money available, the suppliers (the banks) will charge a higher price (the interest rate) as demand for money increases. Demand comes from the public who want to spend money to buy things and from businesses who want to invest money in order to grow. Just like other commodities, demand for money will fall as the price (interest rate) rises. The interest rate will be set by the market. It will be where the demand and supply curves meet - the *equilibrium point*. You can see this relationship shown in figure 1 on page 78.



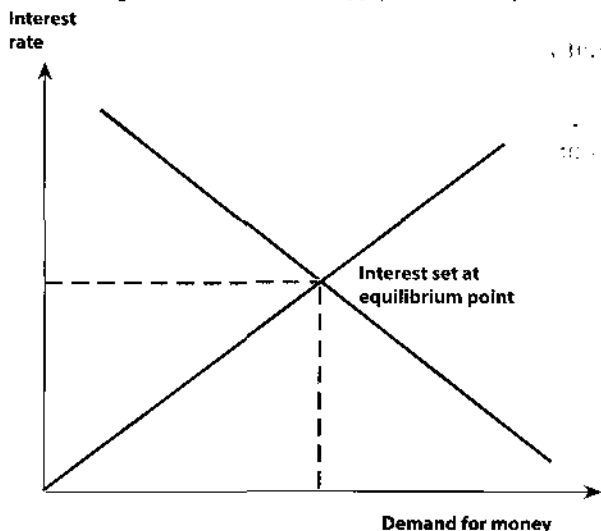
Also, just like other markets, there can be shifts in the demand and supply curves. When shifts happen, the equilibrium point (the interest rate that is set) changes. This new interest rate may be above or below the government's target. What can they do about it? One thing they can do is to influence the supply of money in the market.

What exactly is the money supply and how can the government influence it? Obviously, the money supply includes all the notes and coins in purses, pockets and cash tills. Some of this money will be money that has been borrowed from banks, so loans form part of the money supply too. The supply also includes money that people and companies have in bank accounts, and the money that banks have in their reserve accounts in the central government bank.

Remember that banks lend most of the money that customers deposit. When customers want to make withdrawals, the bank takes cash from its reserve account with the central government bank. If the commercial bank has a shortage of cash in its reserve account, it is obliged to borrow from the central bank. When a commercial bank borrows from the central bank, it must borrow at the government's rate of interest. This is how the government can influence the interest rate equilibrium point of the market.

However, the government needs to ensure that at the end of each day the commercial banks have a shortage of cash. And, of course, they have ways of doing this!

Figure 1: Demand and Supply in the money market



## B Comprehension

Now read the text again and decide whether these statements are true or false.

- 1 When the government sets interest rates, commercial banks must set the same rate. T ☐ / F ☐
- 2 Interest is the price of money. T ☐ / F ☐
- 3 As interest rates increase, demand for money falls. T ☐ / F ☐
- 4 The money supply is only all the notes and coins that are in circulation. T ☐ / F ☐
- 5 Banks lend money, but they never borrow money. T ☐ / F ☐
- 6 At the end of each day banks usually have less money than they need. T ☐ / F ☐

## Before you listen

Discuss the following with your partner.

- Read the summary which explains what open market operations are. Try to complete the gaps with words from the box.

■ borrow ■ decreases ■ lend  
■ reserve ■ selling ■ shortages (x2)

The government can create (1) ..... of money for commercial banks by (2) ..... securities. Securities are a way to (3) ..... money to the government at an agreed rate of interest. This is what is known as *open market operations*. When people buy securities the money supply (4) ..... This causes (5) ..... in the commercial banks' (6) ..... accounts, so they have to (7) ..... money from the central bank.

## C Listening

Now you're going to hear someone talking about open market operations. Listen and check your answers.

## Before you read

Discuss these questions with your partner.

- Economists sometimes talk about *economic shocks*.
- What do you think this might mean?
- What might cause a shock to the economy?

## D Vocabulary

Complete each sentence with a word or phrase from the box.

- disrupt ■ go on strike
- gross national product ■ knock-on effect
- miner ■ sharply ■ stagflation
- unrest

- 1 The total value of a country's goods and services consumed in one year is called the .....
- 2 If something done affects something else, which then again affects something else, we call this a .....
- 3 If people are not happy with their government, there may be political .....
- 4 Being a ..... and digging underground to bring out minerals, must be very dangerous.
- 5 Some people ..... as a way of showing their unhappiness with work conditions or pay.
- 6 If we have ....., there is a sharp drop in production of some goods causing their price to rise.
- 7 A fallen tree can ..... the electricity supply to thousands of homes.
- 8 Prices have risen ..... but unfortunately wages haven't.



## Reading 2

### Economic shocks

Governments try their best to control economic growth, but there are some things that nobody can control. For example war, political unrest in another country or simply a change in the weather can all affect an economy in unexpected ways. Sometimes the effect of these events will cause a sudden shift in aggregate demand or aggregate supply. This is an *economic shock*.

The causes of *demand-side shocks* may be events in the local economy (*domestic demand*) or events abroad (*external demand*). An example of domestic demand was when house prices in the UK dropped suddenly in the late 1980s. Because a home is one of the largest assets most people have, homeowners suddenly felt that they were not as wealthy as they had been. As a result, people started to spend less. This had a knock-on effect on the rest of the economy. Aggregate demand fell sharply and the gross national product fell with it.

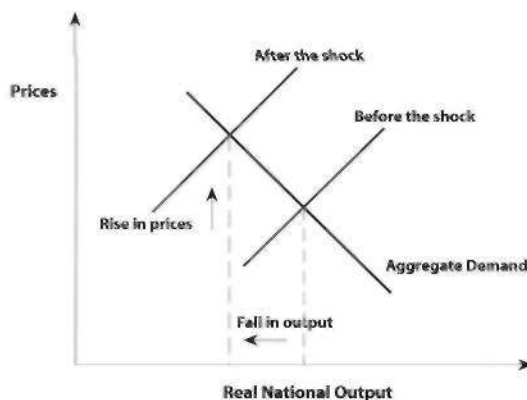


External demand-side shocks happen when a country relies heavily on exports or on foreign investment. The Great Depression in the 1930s is a classic example of this. At the time of the Great Depression, many countries exported their goods to the USA, and many other countries relied on American money for investments to help their industries grow. When the American economy collapsed, it had disastrous effects for other economies, too.

*Supply-side shocks* occur when the supply of goods is disrupted. If the commodity is an important raw material for many industries, then the supply from these industries will drop dramatically. When raw materials are in short supply, they become more expensive. This will cause an increase in manufacturers' variable costs. Manufacturers will then have to increase their prices.

Imagine, for example, that miners in the iron industry went on strike. The supply of iron and steel to manufacturers would be disrupted. This would mean a drop in supply of all sorts of goods, from teaspoons to aeroplanes. As you can see from figure 2 below, the sudden drop in supply will cause a shift in the supply curve. As a result, prices rise even though aggregate demand stays the same. This unfortunate situation is called *stagflation*.

Figure 2: Aggregate Supply Shock



The good news, however, is that sometimes positive supply-side shocks happen. These occur when there is a sudden increase in supply while demand stays the same. This can happen when new technology makes the production of materials or products much easier or more efficient. The result - prices fall and output grows.

## E Comprehension

Now read the text again and choose the best way to finish each sentence.

- 1 An economic shock causes ...
  - A prices to rise.
  - B a demand or supply shift.
  - C demand to fall.
- 2 Demand-side shocks of a domestic nature ...
  - A are caused by events in another country.
  - B are only caused because of a fall in property prices.
  - C are caused by events at home.
- 3 The Great Depression is an example of ...
  - A an external demand-side shock.
  - B an external supply-side shock.
  - C a domestic demand-side shock.
- 4 Supply-side shocks can cause ...
  - A a fall in variable costs.
  - B an increase in variable costs.
  - C a fall in fixed costs.
- 5 Stagflation is when ...
  - A prices fall but output rises.
  - B prices rise and output rises.
  - C prices rise and output falls.
- 6 A positive supply-side shock is when ...
  - A prices fall but output rises.
  - B prices rise and output rises.
  - C prices rise and output falls.

## Before you listen

Discuss the following with your partner.

- An embargo happens when a country stops trading with another. In 1973, there was an embargo on oil. What effects do you think this had on the world's economies?

## F Listening

Now listen and complete the notes.

- 1 After ....., industrial nations enjoyed economic growth.
- 2 They used huge amounts of .....
- 3 A lot of oil came from countries in the .....
- 4 The embargo began on the ....., 1973.
- 5 Prices of oil rose to ..... times higher than before.
- 6 The New York Stock Exchange lost ..... dollars in a few weeks.
- 7 The embargo ended in .....

## G Speaking

**Discuss the following with your partner.**

- Look at figure 1 on page 78 and figure 2 on page 80 again. Take turns explaining to your partner what the diagrams show.

### Task

**Work in groups of three or four. Discuss the effects that these events might have on the economy in your country. Use phrases to describe economic shocks as seen in text 2. Use the space below to make your notes.**

- coal miners go on strike
- large amounts of oil and gas are discovered in Australia
- the government provides a free Internet service to anyone who wants it
- the interest rate doubles in just a few weeks

**Notes:**

### Pronunciation guide

**Equilibrium** /ɪkwɪbrɪəm/

**Asset** /æset/

**Homeowner** /ˈhəʊməʊnə(r)/

**Disastrous** /dɪzəstrəs/

**Stagflation** /stægˈfleɪʃn/

**Embargo** /ɪmˈbɑːɡəʊ/

## H Writing

**Write an essay describing how interest rates are set in the money market. First read through text 1 again and make notes. Then use the plan to help you organise your essay.**

### Essay

#### INTRODUCTION

What are interest rates and why are they important for the economy?

#### PARAGRAPH 1

What does the money supply consist of?  
What is demand and supply in the money market?

#### PARAGRAPH 2

How is the interest rate set by the money market?

#### PARAGRAPH 3

How does the government try to influence the interest rate?

#### CONCLUSION

Sum up in a couple of sentences what you have said in paragraphs one to three.

**Write 200-250 words**





# Unit 16

## Before you read

Discuss these questions with your partner.

Inflation is the rising cost in prices over time.

- Does your country suffer from inflation?
- Why do you think this is?

## A Vocabulary

Choose the correct word.

- 1 When something is in the **headlines** / **articles**, it is an important story in the news.
- 2 When parents are unemployed it is difficult for a family to make ends **touch** / **meet**.
- 3 The **cost** / **price** of living in cities like London and Tokyo is very high.
- 4 People prefer to shop in supermarkets because they find a wide **range** / **amount** of goods there.
- 5 The **retail** / **shopping** industry includes shops, supermarkets and department stores.
- 6 In statistics, when a number is **valued** / **weighted** it is multiplied by another number to show its importance.
- 7 The **victim** / **culprit** is the person or thing that is responsible for doing something bad.
- 8 It is difficult for old people to **manage** / **cope** with living on a small pension.
- 9 In maths, a/an **equation** / **formula** is a sum which is equal on both sides.
- 10 The speed that something travels at is called **velocity** / **capacity**.



## Reading 1

### Inflation

*Inflation* is an overall increase in prices over a certain period of time. It's also a worry for anybody who's trying to make ends meet, and a headache for many governments. The rate of inflation is often in the headlines. However, inflation isn't really news. In most of Europe, for example, prices have risen year after year for at least the last 50 years. *Deflation* (overall decrease in prices) does happen occasionally, but the trend is mostly for the cost of living to increase.

There are lots of ways to measure inflation. One of the most popular ways is the *retail price index*. This is calculated by recording increases in price for a range of goods and services. This is sometimes called a *basket of goods*. Some of the goods are weighted more heavily than others because they are more important. For example, food will be weighted more than the cost of a cinema ticket, because a 5% increase in food is more important than a 10% increase in the cost of seeing a film. Inflation is worked out from an average of all the price increases in the basket.



Inflation can happen for a number of reasons, but economists say there are two main culprits. These are *demand-pull inflation* and *cost-push inflation*. Demand-pull inflation can happen when the economy is growing fast. Aggregate demand begins to grow faster than suppliers can cope with. This causes a shortage, and prices rise. At first, customers may be able to pay the higher prices, and demand grows again. This forces prices up even more, and the cycle continues.

One of the characteristics of demand-pull inflation is that there is often too much money going round the economy. This is explained by the quantity theory of money. This theory uses the following equation:

money supply  $\times$  velocity = average price  $\times$  transactions

*Velocity* is the speed that money is passed on from one person to another. Some economists say that velocity and the number of transactions don't really change. The only things that change in this equation are the money supply and average prices. This means that when the money supply increases, prices will increase too. For this reason, printing money is rarely a solution for economic crises.

Cost-push inflation, on the other hand, occurs when prices rise without an increase in demand. This happens when suppliers' variable costs increase sharply. For example, workers may demand higher wages or raw materials may become more expensive. Producers then pass these increases on to consumers by raising prices. So, as usual, we are the ones who pay!

## B Comprehension

Now read the text again and match each paragraph with the correct heading.

PARAGRAPH 1 .....

PARAGRAPH 2 .....

PARAGRAPH 3 .....

PARAGRAPH 4 .....

PARAGRAPH 5 .....

A Measuring inflation

B Too much cash

C The effects of aggregate demand on inflation

D Production cost changes

E Inflation is a fact of life

## Before you listen

Discuss the following with your partner.

→ High inflation affects the whole economy in different ways. How do you think inflation affects the people and organisations listed below? Try to match the people and organisations 1-4 with the effects A-D.

1 people on a fixed income

A lose money on loans

2 banks

B can't get investment

3 businesses

C are not so competitive

4 exporters

D can't buy as much with their money



## C Listening

Now listen and check your answers.



## Before you read

Discuss these questions with your partner.

Look at the photo and answer these questions:

- What are these people doing?
- How do you think they feel? Why?
- Why do you suppose they are in this situation?



## D Vocabulary

Complete each sentence with a word or phrase from the box.

- can't be bothered ■ contracts
- freelance ■ mobility ■ obsolete
- region ■ relocates ■ retrain
- shipyard ■ tastes

- 1 People's ..... in clothes change with fashion and with their age.
- 2 If you ..... to do something, you just don't feel like doing it.
- 3 When something ....., it gets smaller.
- 4 A ..... is an area of a country.
- 5 When a company ..... to another part of the country or abroad, many workers lose their jobs.
- 6 ..... workers are not employees for a company, but are self-employed.
- 7 If something is ....., it no longer exists because it isn't needed anymore.
- 8 If you lose your job due to mechanisation, you may have to go to college and ..... for something else.
- 9 A ..... is where ships are built.
- 10 Your ..... is your ability to move from one place to another.

## Reading 2

# Unemployment

There will always be a certain amount of unemployment in the economy. When economists talk about *full employment* they mean that everyone who can work and wants to work has got a job. Able workers who are not working are simply not happy with the salaries that are offered - or just can't be bothered!

However, economies rarely reach full employment. There are a number of reasons for this, and a number of different types of unemployment. One of these is *cyclical unemployment*. This type of unemployment varies with the growth and recession cycle of the economy. As the economy grows, demand for labour grows and unemployment falls. As the economy contracts, unemployment grows.

A second kind of unemployment is *structural unemployment*. This occurs when changing public tastes or advances in technology cause a fall in demand for some types of work. For example, computer technology has revolutionised the printing industry, and many traditional printers' jobs have become obsolete. Sometimes whole regions of a country suffer from high structural unemployment. The north-east of England, for example, was famous for many years for its shipbuilding industry. Competition from abroad



forced many shipyards to close. This caused huge unemployment in the region.

How long structural unemployment lasts will depend on two things. Firstly, how easily the workforce can retrain for new jobs. This may be difficult for older workers who find it hard to learn new skills. There is also the question of who pays for the training. The second issue is mobility. Workers who are able to relocate easily to another part of the country will find new jobs more quickly.

There are two other kinds of unemployment which we should mention here. These are less serious, perhaps, but they are still difficult for governments to get rid of. The first is *frictional unemployment*. This is a natural kind of unemployment that occurs when someone leaves a job and is looking for another one that suits them. Frictional unemployment often happens because people want to leave their job in order to change careers. Few people walk straight into another job. However, when the economy is in recession, frictional unemployment will be more common because jobs are harder to find.

The second kind is *seasonal unemployment*. Some industries have busy periods and periods where there is no work at all. Some freelance farm workers, for example, get most of their work in the spring and summer. Like structural unemployment, seasonal unemployment can affect whole regions of a country. Areas that rely on summer tourism, for example, suffer serious unemployment during the autumn and winter months.

- 3 Which kind of unemployment may happen because someone wants it?
  - A cyclical unemployment
  - B structural unemployment
  - C frictional unemployment
  - D seasonal unemployment
- 4 Which kind of unemployment happens because of changes in economic growth?
  - A cyclical unemployment
  - B structural unemployment
  - C frictional unemployment
  - D seasonal unemployment
- 5 Which kind of unemployment happens in particular parts of the country? (2 answers)
  - A cyclical unemployment
  - B structural unemployment
  - C frictional unemployment
  - D seasonal unemployment

## Before you listen

Discuss these questions with your partner.

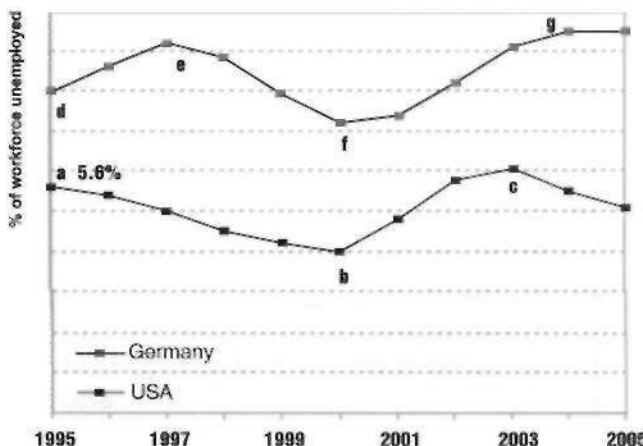
The chart below shows the trends in unemployment in two countries. Look at the chart, and answer these questions.

- What does the vertical axis show?
- What does the horizontal axis show?
- What two countries are shown?
- How many years are shown?
- Are there any similarities between the curves for the two countries?

## F Listening

Now listen and write the correct percentages on the chart. The first answer has been done for you.

Unemployment in Germany and the USA 1995-2005



## E Comprehension

Now read the text again and choose the best answer or answers for each question.

- 1 Which kind of unemployment happens regularly every year?
  - A cyclical unemployment
  - B structural unemployment
  - C frictional unemployment
  - D seasonal unemployment
- 2 Which kind of unemployment happens because of advances in technology?
  - A cyclical unemployment
  - B structural unemployment
  - C frictional unemployment
  - D seasonal unemployment

## G Speaking

Discuss these questions with your partner.

- Is inflation a problem in your country? Why / Why not?
- How does unemployment affect people psychologically?
- What kind(s) of unemployment do you think affect the area where you live?
- Can you talk about the history of unemployment in your country since the 70s like the diagram in exercise F Listening on page 85?

### Task

Work in groups of three or four. Imagine you and your friends are running the country. Things are not going well! Here are some of your problems.

- unemployment is high (12%)
- the rate of inflation is also high
- workers are going on strike for higher wages
- your large steel industry is losing money because of foreign competition

Talk to each other and decide which of these problems is the most important. Then decide what you can do to make things better. In your discussion think about:

- retraining / relocation of workers
- cost-push inflation
- the money supply

Use the space below to make your notes.

Notes:

## H Writing

Imagine you are a shipyard worker who has just become unemployed because the government has decided to close down the shipyards. Write a letter to a friend explaining what's happened and how you feel about it.

### Informal letter

Use this plan to help you.

Greeting

#### PARAGRAPH 1

Thank your friend for his/her last letter. Respond to a piece of news he/she had in his/her letter. Tell your friend your bad news.

#### PARAGRAPH 2

Explain how you lost your job. Explain what the government's reasons were for closing the yard (inflation made exports uncompetitive).

#### PARAGRAPH 3

Explain how you feel about losing your job. How is it affecting you and your family?

#### PARAGRAPH 4

Explain what you're planning to do (retrain / relocate?).

Sign off

Write 100-140 words



#### Pronunciation guide

Culprit /kʌlprɪt/  
 Velocity /və'loʊsəti/  
 Deflation /di:'fleɪʃn/  
 Equation /ɪ'kwetʃən/  
 Freelance /fri:ləns/  
 Revolutionise /revə'lju:ʃənaɪz/  
 Shipyard /ʃɪpjɑ:d/  
 Inflation /ɪn'fleɪʃn/

## Revision Vocabulary

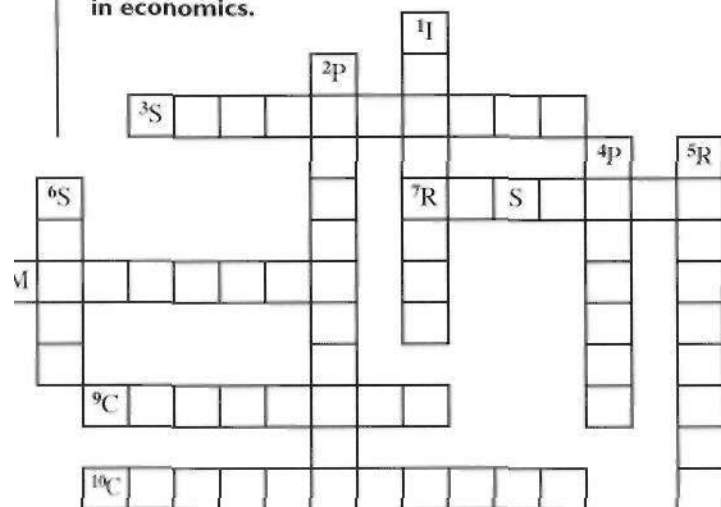
## Units 13 to 16

**A1** Circle the word in each group which does not fit.

- 1 kinds of money  
fiat, commodity, fake, intrinsic
- 2 things you can do in a bank  
deposit, barter, borrow, make a withdrawal
- 3 kinds of inflation  
demand-pull, exchange rate, cost-push, high
- 4 kinds of unemployment  
target, structural, cyclical, seasonal
- 5 economic problem  
shortage, stagflation, mobility, depression
- 6 other words for money  
cash, exchange, currency, coins

**A2** Now write six example sentences using as many words as possible from this exercise.

**B** Complete the crossword with words we use in economics.



## ACROSS

- 3 People buy these from the government as a way to invest their money.
- 7 The money that a bank keeps in its account at the central bank.
- 8 A bank loan given to house buyers.
- 9 Governments try to get the economy working so it uses all its resources.
- 10 This is another word for fake money.

## DOWN

- 1 This is the cost of borrowing money.
- 2 A kind of income tax system.
- 4 The whole income of a country is called the gross national .....
- 5 When money is paid back.
- 6 The oil crisis of the 1970s caused an economic .....

**C** Read this letter and fill in the gaps with the words and phrases from the box.

- ☐ allowance   ☐ cash till   ☐ knock-on effect  
☐ lend   ☐ make ends meet   ☐ obliged  
☐ plus   ☐ purse   ☐ relocated   ☐ transport

Dear Gill,

How are you getting on at university? As you know, rather than studying, I decided to get a job but you will be surprised to hear my news.

I didn't take the job I was offered in the (1) ..... department because I was also offered another job in a bank! You may well be wondering why and the answer is simple – money! It would have been hard to (2) ..... on the salary the first job paid. As a single person my personal (3) ..... isn't very much so I have to pay a lot of tax. Being paid well is always a (4) ..... in any job! Added to that, I'm not (5) ..... to work in the city centre which is something I'd prefer to avoid and neither do I run the risk of being (6) ..... I'd hate to have to move.

Anyway, the position I have is working at a (7) ..... As you can imagine, I see a lot of things in a day – it's never boring. Take yesterday. Well, an old lady came to my counter, opened her bag and took out her (8) ..... Then she began to count a huge pile of coins and notes in front of me. This went on for a while, then the man behind her started to complain. Of course that had a(n) (9) ..... and soon the whole bank was going crazy, all the customers arguing. Throughout all of this the old woman continued her counting! Well, she deposited her life savings and the customers calmed down. I must say, perhaps there's a bit too much excitement sometimes. I may move to the loans department in the future. It might be easier to (10) ..... people money!

Anyway, let me know how you're getting on.

Love,

Helen xxx



# Unit 17

## Before you read

Discuss this question with your partner.

→ What do you think makes an economy grow?

### A Vocabulary

Choose the correct answer A, B or C from the list opposite.

- 1 In many ways life for previous ..... was much more difficult.
- 2 Home ..... has increased in many parts of Europe.
- 3 When the economy grows dangerously fast, we say it .....
- 4 A ..... is when the economy is growing quickly.
- 5 ..... are fairground rides like trains that go up and down very fast.
- 6 ..... in technology in the last 30 years has been incredible.
- 7 ..... is when you get better after something bad like an illness - or economic depression.
- 8 When you ..... you fight or work hard for something.
- 9 Don't buy anymore milk. We've got ..... in the fridge.
- 10 A fortunate person is very .....
- 11 Mountain climbers are people who enjoy a .....
- 12 The ..... is the government minister responsible for the economy.
- 13 ..... growth is growth that can continue for a long time.

- |                     |                  |               |
|---------------------|------------------|---------------|
| 1 A people          | B generations    | C family      |
| 2 A ownership       | B having         | C belonging   |
| 3 A boils over      | B overheats      | C warms up    |
| 4 A bang            | B boom           | C balloon     |
| 5 A roller-coasters | B big wheels     | C bumper cars |
| 6 A growth          | B increase       | C progress    |
| 7 A discovery       | B recovery       | C slump       |
| 8 A overheat        | B recover        | C struggle    |
| 9 A plenty          | B a shortage     | C none        |
| 10 A hard-working   | B rich           | C lucky       |
| 11 A challenge      | B race           | C boom        |
| 12 A economist      | B prime minister | C chancellor  |
| 13 A sustainable    | B sustained      | C sustaining  |

### Reading 1

## Economic growth

Many millions of people enjoy a quality of life today that previous generations could not have dreamed of. Home ownership, private cars and holidays are now standard for most families in industrialised countries. And yet at the same time, billions of people in other countries live without even clean drinking water. How can this be? The answer is that the fortunate few live in countries with sustained economic growth.

An economy is growing when the *gross national product* is increasing year after year. When economists calculate economic growth, though, they must take into account the effects of inflation. For example, imagine that the gross national product of a country increased from \$500 billion to \$510 billion from one year to another. That's an increase of two per cent in output. Very impressive! However, if the rate of inflation was two per cent, then there has been no real growth at all.

The other thing to remember about economic growth is that not all growth is good. Governments want steady, sustainable growth. Sudden, sharp increases in growth - a boom - can cause the economy to overheat and fall into recession. For many economies, the long run growth over many years is steady, but the short run is a roller-coaster ride of boom and depression. For



instance, the long run growth of the UK economy since 1950 has been a steady 2.5% per year. However, if you look closely at any decade you'll see that there is a cycle of growth, recession and recovery. The truth is, steady growth in the short term is very hard to achieve.

Nevertheless, many countries are still struggling to achieve any kind of growth at all. Why is this? What is necessary for growth to happen? Many economists have tried to find the answer to this question, and there are plenty of theories to choose from. However, most economists agree that three things are essential for economic growth to occur: capital growth, savings and technological progress.

Capital refers to the factories and machinery that the labour force uses to turn raw materials into products. More workers and more raw materials will only lead to a certain amount of growth. Eventually, the economy needs more capital for the labour to use. Capital growth can also include training and education for the labour force. This makes the workforce more efficient, creative and productive.

Of course, someone has to pay for the new machines and training. In other words, capital growth needs investment. Money for investment needs to be borrowed from banks. Banks can only lend if customers make savings. This is why savings are so important for growth. However, the economy will not grow if everyone is saving and no one is spending. Getting the right balance between consumption and saving is another part of the challenge of economic growth.

But above all, technology is the real miracle worker of economic growth. An advance in technology can increase productivity from the same amount of capital and resources: just what the chancellor ordered!

#### PARAGRAPH 2

- A GNP and economic growth are the same thing.
- B An increase in GNP always means the economy is growing.
- C An increase in GNP may not show economic growth.

#### PARAGRAPH 3

- A All growth is good.
- B Fast growth is good.
- C Steady growth is good.

#### PARAGRAPH 4

- A The majority of economists believe three factors positively influence economic growth.
- B Economists are sure about what causes economic growth.
- C Economists have no idea about what causes economic growth.

#### PARAGRAPH 5

- A The economy needs more raw materials to grow.
- B The economy needs more machines and factories in order to grow.
- C The economy needs more labour to grow.

#### PARAGRAPH 6

- A For economic growth there needs to be more spending and less saving.
- B For economic growth there needs to be more saving and less spending.
- C For economic growth there needs to be the right amount of saving and spending.

#### PARAGRAPH 7

- A Technology creates more raw materials with less labour.
- B Technology creates greater output from the same amount of capital, labour and materials.
- C Technology creates more labour with fewer raw materials.

## B Comprehension

Now read the text again and choose the sentence which best summarises each paragraph.

#### PARAGRAPH 1

- A Economic growth does not happen everywhere.
- B Economic growth did not happen in the past.
- C Economic growth happens only in industrialised countries.

## Before you listen

Discuss these questions with your partner.

Look at the photo below and answer these questions:

- What country is this?
- What do you know about its economy?
- What countries are sometimes called the East Asian Tigers. Do you know why?
- Which of the things listed in C Listening helped the East Asian Tigers to grow?

## C Listening

Now listen and tick the things that helped the East Asian Tigers grow.

- |   |                          |
|---|--------------------------|
| 1 spending on education                         | <input type="checkbox"/> |
| 2 cuts in welfare benefits for unemployed       | <input type="checkbox"/> |
| 3 high rate of savings                          | <input type="checkbox"/> |
| 4 high rate of local consumption                | <input type="checkbox"/> |
| 5 exports to richer countries                   | <input type="checkbox"/> |
| 6 non-democratic governments                    | <input type="checkbox"/> |
| 7 democratic governments                        | <input type="checkbox"/> |
| 8 good relations between management and workers | <input type="checkbox"/> |
| 9 strict management rule                        | <input type="checkbox"/> |



## Before you read

Discuss these questions with your partner.

Look at the chart on page 91 which shows the business or trade cycle.

- What do you understand from the chart?
- What is happening to the economy at each stage?

## D Vocabulary

Complete each sentence with a word or phrase from the box.

- |              |              |            |
|--------------|--------------|------------|
| ■ bankrupt   | ■ current    | ■ debt     |
| ■ inevitable | ■ lay off    | ■ pay off  |
| ■ put up     | ■ reasonable | ■ secure   |
| ■ shrink     | ■ stages     | ■ turnover |

- 1 Each month I put 100 euros into the bank to ..... my loan.
- 2 If you feel ..... about your job, you don't think there is a danger of losing it.
- 3 In Britain if it's sunny in the morning, rain is ..... later!
- 4 A company's ..... is how much money it spends and earns each year.
- 5 The ..... price of oil is unbelievable.
- 6 Painting the body is one of the final ..... of manufacturing a car.
- 7 ..... prices are prices you think are fair.
- 8 If you wash some clothes in very hot water, they .....
- 9 The opposite of taking on staff is to ..... staff.
- 10 If a company goes ....., it cannot pay back the money it owes and it must close down.
- 11 I have a large ..... and I have to pay back a lot of money every month.
- 12 Farmers have ..... their prices so the cost of fruit and vegetables has increased.

## Reading 2

### The business cycle

In the long term, over many years, an economy will grow at a steady rate. However, the climb up the hillside of economic growth is actually quite rocky. Long-term growth is made up of many short-term steps. Each short-term step may last for five or ten years. Over this short-term period the economy goes through a cycle of growth and recession. This is called the *trade or business*

cycle, and it has four stages: *boom*, *slump*, *recession* and *recovery*.

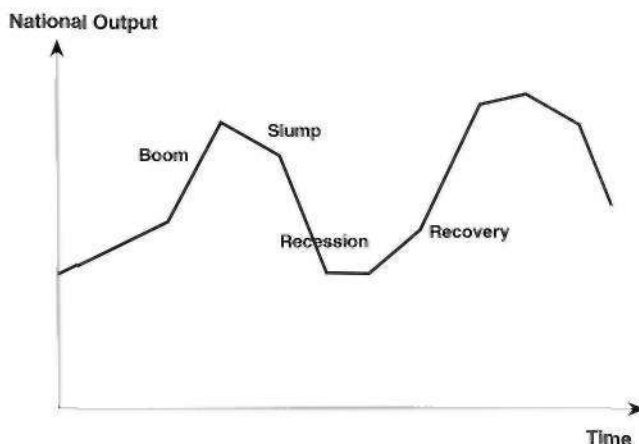
During a boom, everything is good. Demand for goods and services is high and business is going well. To meet demand, companies need to take on more staff, so unemployment is low. Confidence is in the air! Consumers feel confident about spending because their jobs seem secure. What's more, interest rates are reasonable, so people take out loans and use their credit cards. Low interest rates also encourage companies to invest in new capital, and businesses grow. Governments are happy too, because tax revenues are increasing. However, the government has to be careful. Boom economies are always in danger of overheating. Demand-pull or cost-push inflation will eventually bring the good times to an end.

When the slump comes, the economy continues to grow, but not so fast. Once inflation starts to rise, confidence falls. The government have probably put up interest rates to slow down borrowing. People with mortgages have to spend more money to pay off their debt, so they have less to spend on other things. Higher interest rates discourage business investment. Things are moving slowly, and people just hope that the economy will improve again. But will it?

If the government have not acted quickly enough, its fiscal and monetary policy changes may be too late. In this case, recession is inevitable. Some economists say a recession exists when the current rate of growth falls below the long-term rate of growth. Others say a recession is when there is no growth at all, and the economy actually shrinks. Whatever it is, a recession is bad news. Companies have to reduce costs because turnover is so low. The first thing they do is to lay off staff. If the recession is very bad, some companies may even go bankrupt and close. When this happens, thousands of workers may lose their jobs. As unemployment rises, the government needs to spend more on providing unemployment benefit for those who are out of work. In the worst recessions, these conditions can last for a number of years.

Eventually, with good government policy and a demand for goods or services from healthier economies abroad recovery will come. Slowly, confidence returns, investment grows and the cycle begins again.

### The Business Cycle



### E Comprehension

Now read the text again and answer these questions in your own words in the space provided below.

- 1 What is economic growth like in the long run?
- 2 What is economic growth like in the short run?
- 3 Why are businesses and consumers confident during a boom?
- 4 Why are mortgage repayments often higher during a slump?
- 5 How do companies try to save money during a recession?
- 6 What can help an economy recover?

**Notes:**

## Before you listen

Discuss this question with your partner.

- How does each stage of the business cycle affect ordinary people?

## F Listening

Now listen to these people. What part of the business cycle are they in? Match the people with the stage.

<b>SPEAKER 1</b> .....	<b>A</b> boom
<b>SPEAKER 2</b> .....	<b>B</b> slump
<b>SPEAKER 3</b> .....	<b>C</b> recession
<b>SPEAKER 4</b> .....	<b>D</b> recovery

## G Speaking

Discuss these questions with your partner.

- Is economic growth always good?
- What are the negative results of economic growth (eg. pollution, destruction of environment)?

### Task

Work in groups of three. Each of you should take one of the following roles.

- **STUDENT 1** the Chancellor
- **STUDENT 2** chief director of one of the country's largest industries
- **STUDENT 3** leader of a workers' union

Imagine that the economy has gone into a recession.

**STUDENT 1** you're the Chancellor. Explain to the others why the country is in recession and what you plan to do about it.

**STUDENTS 2 and 3** should tell the Chancellor what problems the recession is causing them. Tell the Chancellor what you want him/her to do.

Use the space below to make your notes.

Notes:

## H Writing

Answer this essay question: 'Economic growth isn't always a good thing.' How far do you agree with this opinion?

### Essay on economic growth

Use this essay plan to help you.

#### PARAGRAPH 1

**Introduction to the topic:** What is economic growth and how does it occur?

Read text 1 again and make notes.

#### PARAGRAPH 2

**What are the benefits of economic growth for a country?**

standard of living, health care, education, employment

#### PARAGRAPH 3

**What are the negative externalities of economic growth?**

effects on the environment, traditional way of life, stress and family life, equity and inequality

#### PARAGRAPH 4

**In summary** – sum up both sides of the argument in a sentence and say what your view is.

Write 200-250 words



#### Pronunciation guide

**Sustain** /sə'steɪn/

**Industrialised** /ɪn'dʌstriəlaɪzd/

**Recession** /rɪ'seɪʃn/

**Bankrupt** (adj) /bæŋkrʌpt/

**Inevitable** /ɪn'evɪtəbl/

**Chancellor** /tʃænsələ(r)/

**Externality** /eks'tɜːnəli/

# Unit 18

## Before you read

Discuss this question with your partner.

- Nearly all countries trade with each other. Why do you think this is?

## A Vocabulary

Match the words and phrases with the definitions.

- |                        |  |
|------------------------|--|
| 1 balance of trade     | A the movement of something, like water in a river   |
| 2 imports              | B big variety  |
| 3 wide range           | C financial protection   |
| 4 trading partnerships | D when you receive less money than you pay out   |
| 5 value for money      | E when something is worth the amount you pay for it  |
| 6 deficit              | F the difference between the total amount of exports and imports for a country in one year |
| 7 insurance            | G people, companies or countries that do business together                                 |
| 8 flow                 | H goods and services a country buys from abroad  |



## Reading 1

### The open economy

All through history, people from one society have been trading with people from another. Three thousand years ago, for example, the Phoenicians of the Mediterranean built an economy almost completely on foreign trade. In the jargon of economics, the Phoenicians had an *open economy*, and almost every economy since theirs has been open too.

When an economy is open, this basically means that it imports and exports goods and services. What are the benefits of doing this? First of all, if you trade with other economies, you can import goods that do not exist in your economy. These may be products that your economy cannot manufacture, but they may also be raw materials. With a wider range of raw materials, an economy is able to use its capital and labour to produce a wider range of products. In this way, importing can actually help an economy grow. What's more, if you allow imports from other countries, then you will have trading partnerships. This means that you can export to countries. If you have customers all over the world, your economy will grow faster.





Open economies are good for consumers, too. If the economy allows imports from abroad, there will be a greater variety of goods available locally. When products are available locally, imports of the same products should help to keep prices down and quality high. This is because local companies will have to compete with foreign companies, and more competition will mean better quality and greater value for money.

Economists describe imports and exports of material products as *visible* - because you can really see and touch them. Examples of visible exports and imports are food stuffs, furniture and electronic equipment. However, there are also *invisible* imports and exports. These are mainly services, but can include all sorts of things. Examples of invisible exports and imports include banking services, insurance products, educational courses and tourism.

Opening up economies, however, does bring problems. One of the main difficulties is keeping a good balance of trade. Every time a country manages to sell a product or service abroad, this means money will flow into the economy. On the other hand, every time someone buys from abroad, money flows out of the country. Over time, if the flow of money out of the economy is greater than the flow of money into the economy, then there is a *trade deficit*. This is not a good situation to be in. The challenge for governments is to keep the flow of trade equal in both directions, or to achieve a *trade surplus*. This is when total exports are greater than total imports.



## B Comprehension

Now read the text again and decide whether these statements are true or false. If the statement is false, correct it.

- Most economies in the world were closed until very recently. T ☐ / F ☐
- Open economies exchange exports and imports with each other. T ☐ / F ☐
- Importing products will always make the local economy shrink. T ☐ / F ☐
- Only the producer benefits from an open economy. T ☐ / F ☐
- If you go abroad for a holiday, you create an invisible export for your country. T ☐ / F ☐
- When exports earn more money than imports, there is a trade surplus for the economy. T ☐ / F ☐

## Before you listen

Try to complete this paragraph about autarchies by using words from the box.

- America ■ China ■ closed  
 ■ empires ■ invade ■ North Korea  
 ■ resources ■ self-sufficient

An autarchy is another word for a completely (1) ..... economy. An autarchy does not have trading partners. It is (2) .....  
 There are no autarchies in the world today, although (3) ..... is almost an autarchy. Autarchies don't exist because no economy has all the (4) ..... it needs. In the 19th century, (5) ..... was an autarchy for about one year. (6) ..... was almost an autarchy in the 20th century. The only real autarchies that have existed are (7) ..... They have tended to (8) ..... instead of trade!

## C Listening

Now listen and check your answers.



## Before you read

Discuss this question with your partner.

Can you name the currencies that these countries use?

- USA
- Switzerland
- France
- UK
- Australia
- Japan
- India

## D Vocabulary

Complete each sentence with a word or phrase from the box.

- currency ■ equilibrium point ■ euro  
 ■ investors ■ overseas ■ sterling  
 ■ swap ■ zone

- 1 A ..... is the kind of money used in a country.
- 2 The currency used in Italy, France and Greece is the .....
- 3 ..... is another name for the UK's pounds and pence.
- 4 A ..... is an area.
- 5 Being ..... means you are not in your own country.
- 6 If you're not satisfied with what you've bought, you can ..... it for something else.
- 7 ..... are people or companies that lend money to companies in order to make a profit.
- 8 The ..... is the price that sellers are happy to sell at and buyers are happy to buy at.

## Reading 2

### Exchange rates

The UK has sterling, the USA has dollars and Russia has the rouble. Almost every country has its own currency. Some countries in an economic zone share a currency, for example the 13 European countries that share the euro, but this is quite rare. If I live in a Eurozone country and I want to buy something from the UK, I must buy it using UK sterling. To do this I need to exchange my euros for sterling. The amount of sterling I can swap for each euro depends on the *exchange rate*.

For example, if the exchange rate is £1 = €1.50 and the camera I want to buy is worth £100, then to buy the camera I must spend  $100 \times 1.5 = €150$ . Similarly, if someone in the UK wants to buy something from a Eurozone country, they must exchange their sterling for euros. If the computer they want to buy costs €500, then they must spend  $500 \times 0.75 = £375$ .

Most exchange rates, however, do not stay the same. They are changing all the time. Imagine that a few days later the exchange rate changes to £1 = €1.45. This would make the camera cheaper for me, but the computer more expensive for the buyer in the UK. In other words, sterling has got weaker against the euro and the euro has got stronger against sterling.



But what makes the exchange rate change? To understand this, just think of the exchange rate as the price of the currency. Just like any other commodity, the price of a currency is decided by supply and demand in the market. The rate set will be the equilibrium point where supply and demand meet.

Where does demand for a currency come from? Let's take the euro, for example. Exports from the Eurozone need to be paid for in euros. This means the buyers of those exports need to buy euros to make their purchases. So the demand for euros increases. Also, investors from outside the Eurozone may want to invest their money there because they think they will make a profit. To do this, they must buy euros, and again the demand for euros increases. The supply of euros on the international money markets comes from people who want to sell euros. If people want to buy imports from countries outside the Eurozone, or if they want to invest in countries outside the Eurozone, they must sell their euros to buy other currencies. So the supply of euros increases.

A change in the exchange rate of a currency can have a big impact on the economy. For example, it can have a big impact on the economy's balance of payments. As we saw in the example earlier, when a currency gets stronger, imports become cheaper. But at the same time, exports to overseas customers get more expensive. This will probably mean that more money will flow out of the economy than in.

## E Comprehension

Now read the text again and answer these questions in your own words in the space provided.

- 1 How many countries currently use the euro?
- 2 What must you do if you want to buy something from another country?
- 3 How is the exchange rate between currencies set?
- 4 What two things can make the demand for a currency increase?
- 5 What happens to exports when a currency gets stronger?

Notes:

## Before you listen

Discuss the following with your partner.

A change in the exchange rate will make a currency stronger or weaker against other currencies. How will this affect the rest of the economy? Try to put the effects under the correct heading.

- economy grows
- economy shrinks
- exports fall
- exports grow
- imports are cheaper
- rate of inflation falls
- rate of inflation increases
- workers demand higher wages

Effects of a strong currency	Effects of a weak currency

## F Listening

Now listen and check your answers.

## G Speaking

Discuss these questions with your partner.

- Do you think we could have one currency for the whole world? Why / Why not?
- What would it be like to live in a closed economy?

### Task

Give a two-minute talk about closed and open economies. First, read text 1 again and the listening summary on page 94 and make notes below on the following.

- what is an open economy and what is a closed economy
- closed and open economies in history
- the advantages and the disadvantages of each type of economy

Notes:

### Pronunciation guide

Insurance /ɪnʃʊərəns/

Phoenicians /fəˈniːʃn/

Deficit /defɪsɪt/

Autarchy /ɔːtəˈki/

Mediterranean /medɪtəˈreɪniən/

Euro /jʊərə/

Sterling /stɜːlɪŋ/

Import (n) /ɪmˈpɔːt/

## H Writing

Answer this essay question: 'What is the exchange rate and how does it affect the economy?'

### Essay about exchange rates

First, read text 2 again and the notes from the listening exercise on page 96 and make notes. Use this essay plan to help you, and include these words and phrases:

**Organising ideas:** first of all, next, furthermore, in addition, in a number of ways

**Describing cause and effect:** as a result, consequently, this leads to, due to

#### PARAGRAPH 1

What are currencies?

How do countries trade with one another?

#### PARAGRAPH 2

What is the exchange rate?

How is the exchange rate set?

#### PARAGRAPH 3

What is the balance of payments?

How does the exchange rate affect imports and exports?

#### PARAGRAPH 4

What other effects does a change in the exchange rate have on the economy?

Write 200-250 words



# Unit 19

## Before you read

Discuss the following with your partner.

Do you remember how the exchange rate affects the rest of the economy? Tell your partner what you remember about these things:

- the exchange rate and interest rates
- the exchange rate and the balance of trade



## Reading 1

# Exchange rate mechanisms

If you're planning a holiday abroad, one of the things you won't forget to do is to buy some of the local currency. You'll probably visit a few banks to see which one offers the best exchange rate. But holidaymakers aren't the only ones who are interested in exchange rates. Governments are watching them all the time. This is because a change in the exchange rate of the national currency can affect the whole economy. Interest rates, balance of payments and economic growth will all feel the effects of a change in exchange rates.

But can governments do anything about exchange rates apart from watch them? Well, yes, they can. They can use something called *exchange rate mechanisms*. These are ways to control the value of the national currency against other currencies. There are different types of mechanism, but they are all variations on two *extreme* mechanisms: *free floating* exchange rate and *fully fixed* exchange rate.

When a currency's exchange rate is free floating, the *government* doesn't try to control the *price* of the currency. Remember that, just like any other price, the exchange rate changes when demand and supply change. When governments allow

## A Vocabulary

Match the words and phrases with the definitions.

- |                       |   |
|-----------------------|---|
| 1 exchange            | A unchanging mechanism                          |
| 2 variations          | B different types of the same thing             |
| 3 floating            | C stay  |
| 4 fixed exchange rate | D system for buying money                       |
| 5 extreme             | E supplies                                      |
| 6 reserves            | F free  |
| 7 constant            | G stable currency price fixed by the government |
| 8 remain              | H most absolute                                 |
| 9 peg                 | I keep two currencies at same level             |



the currency to be free floating, they are saying, 'let the market decide the price of our currency'. In contrast, a fully fixed exchange rate is strictly controlled by the government. For example, the UK government might decide that they want sterling to remain at a constant exchange rate against the euro of  $\text{£}1 = \text{€}1.50$ . This is sometimes called *pegging*. In this example, sterling is pegged against the euro at that rate, although in actual fact sterling is a free floating currency.

However, there is a problem. If demand on the money market rises for sterling, then the exchange rate will rise also. How can the government maintain the exchange rate they want? The only way is to change the level of supply of sterling on the money market. The government can increase the amount of sterling on the international market by selling it. This means they buy foreign currencies and sell sterling. Alternatively, if they want to increase demand for sterling, the government needs to reduce the supply on the money market. To do this, they sell their reserves of foreign currencies and buy sterling. This way, they keep the exchange rate (the price) of sterling at a constant rate.

So which system is best - fixed or floating? It depends on lots of things. Each system has its benefits and drawbacks. A free floating mechanism often makes it easier to keep a steady balance of payments. Also, the government can make any changes it wants to interest rates without worrying about the exchange rate (the market looks after that). On the other hand, a fixed rate mechanism makes industry feel more secure. They know what the value of their exports will be, and so they can plan for the future more easily. This is good for the local economy and for international trade.

## B Comprehension

Now read the text again and then read the descriptions below. Which mechanism is being described?

- The government chooses a target rate for the currency.
  - fixed exchange rate
  - floating exchange rate
  - both fixed and floating mechanisms

- The government accepts the market value of the currency.
  - fixed exchange rate
  - floating exchange rate
  - both fixed and floating mechanisms
- Supply and demand on the currency market affect the exchange rate.
  - fixed exchange rate
  - floating exchange rate
  - both fixed and floating mechanisms
- The government does not attempt to change the rate.
  - fixed exchange rate
  - floating exchange rate
  - both fixed and floating mechanisms
- The government needs reserves of foreign currency.
  - fixed exchange rate
  - floating exchange rate
  - both fixed and floating mechanisms
- There are advantages and disadvantages.
  - fixed exchange rate
  - floating exchange rate
  - both fixed and floating mechanisms

## Before you listen

Discuss the following with your partner.

You're going to hear someone talking about the foreign exchange market. As you listen, you'll make some notes about what you hear. First, read through the headings. Do you know any of the answers?

Other names: (1) .....  
(2) .....

Main trading centres: (3) .....  
(4) ..... (5) .....

Most traded currencies: (6) .....  
(7) ..... (8) .....

Amount traded daily: (9) .....

Trading hours: (10) .....

Main traders: (11) .....  
(12) ..... (13) .....  
(14) .....

## C Listening

Now listen and complete the notes.



## Before you read

Discuss the following with your partner.

Do you remember these ideas from earlier units?  
Tell your partner what you know about these things:

- opportunity cost
- economic welfare
- the benefits of an open economy

## D Vocabulary

Complete each sentence with a word from the box.

- comparative ■ exploit ■ incentive  
■ quota ■ restrict ■ specialises  
■ stimulate ■ tariffs

- 1 All countries try to ..... the natural resources that they have.
- 2 ..... are a kind of tax that the government puts on imported goods.
- 3 Low interest rates can help to ..... the economy and make it grow.
- 4 A rise in salary is an ..... to make people work harder.
- 5 The UK economy ..... in services such as banking and insurance.
- 6 Governments sometimes need to ..... the flow of imports and exports.
- 7 The opposite of absolute is .....
- 8 They have a ..... which must be fulfilled if they want to keep the contract.

## Reading 2

# International trade

There are plenty of incentives for a country to have an open economy. Exports increase the size of the market for producers. Imports stimulate competition in local markets and provide a wider choice for consumers. These are good reasons for international trade. However, another important reason for trading is to exploit advantages. Economists talk about two types of advantage that an economy can have over others: *absolute advantage* and *comparative advantage*.

An economy has absolute advantage when it can produce goods at a lower cost than other economies can, or they have resources that others don't have. For example, warm Mediterranean countries have an absolute advantage in the production of olive oil. Many countries in Asia have an absolute advantage in manufacturing electronic goods. Clearly, it makes sense for countries with absolute advantages to trade with each other.

The second kind of advantage is comparative advantage. This happens when an economy can produce something at a lower *opportunity cost* than other economies can. Remember that the opportunity cost of something is what you have to give up in order to have it. For example, imagine that country A makes two things with its resources: clothes and furniture. If it wants to increase production of clothes, it must decrease its production of furniture. This loss is the opportunity cost.





Now imagine that country B also makes clothes and furniture, but it makes less of both than country A. In other words, country A has an absolute advantage over country B in clothes and furniture. However, country B can increase its production of clothes with only a small opportunity cost in furniture. This means that country B has a comparative advantage over country A in the production of clothes.

But why would country A want to trade with country B? What benefit would they gain? In fact, both countries can benefit by specialising. If country A produces only furniture, and country B produces only clothes, both countries will be making best use of their available resources. By trading in this way, production of both products increases. In turn, this increases the economic welfare of both countries.

Despite all the advantages of having an open economy, countries sometimes restrict trade with other countries. For example, governments may charge tariffs on imports. These are taxes which make imports more expensive than locally produced products. Governments may also restrict the amount of imports entering the country. This kind of restriction is called an *import quota*. Since international trade has so many benefits, why would countries want to restrict trade in this way? There must be some very good reasons!

6 Tariffs and quotas are used in order to increase imports into the economy.

T ☐ / F ☐

#### Notes:

## Before you listen

Discuss this question with your partner.

- Why do you think governments sometimes use tariffs and quotas to restrict free trade with other countries?

### E Comprehension

Now read the text again and decide whether these statements are true or false. If the statement is false, correct it in the space provided.

- Imports can be good for an economy. T ☐ / F ☐
- A country's natural resources can give it an absolute advantage over other countries. T ☐ / F ☐
- A country with an absolute advantage will always have a comparative advantage, too. T ☐ / F ☐
- A small economy can have a comparative advantage over a larger economy. T ☐ / F ☐
- Specialising in one area of trade will give a country a comparative advantage. T ☐ / F ☐

### F Listening

You're going to listen to four people talking about trade restrictions. Match the speakers with the reasons for restricting trade. There is one extra reason that the speakers do not mention.

SPEAKER 1 .....

SPEAKER 2 .....

SPEAKER 3 .....

SPEAKER 4 .....

A to stop imports of dangerous goods

B to protect local jobs

C to punish other countries who use restrictions

D to stop the local market being flooded with cheap imports

E to let new local industries grow

## G Speaking

Discuss these questions with your partner.

- Are trade restrictions a good thing or a bad thing in your opinion? Why?
- Do you know whether your country uses tariffs or quotas on imports?
- Do you think any country has a completely open economy?

### Task

Give a two-minute talk on exchange rate mechanisms. First, read text 1 again and make notes below on the following.

- What is an exchange rate?
- What is a fixed exchange rate - how does the government keep it fixed?
- What is a floating exchange rate?
- What are the advantages of each system?

Notes:

## H Writing

Answer this essay question: 'Describe the trade partnerships that your country has with other nations.'

First, do some research and find out what and how your country trades with others. Then use this plan to organise your answer.

### Essay about international trade

#### INTRODUCTION

Explain that you are going to write about your government's trade partnerships nowadays. Mention that historically these partnerships haven't always been the same.

#### PARAGRAPH 1

What absolute advantages does your country have (natural resources or strong industries)? What are the main exports from your country (goods and services)? Which countries do they go to? How does this affect your country's international trading?

#### PARAGRAPH 2

What are the main imports into your country, and where are they from? Why are these imported? Do other countries have an absolute or comparative advantage in these goods?

#### PARAGRAPH 3

Are there any barriers to trade? If there are, why do they exist?

#### CONCLUSION

Sum up your country's international trading partnerships in two sentences.

Write 200-250 words

#### Pronunciation guide

**Pegging** /peɪnɪ/

**Incentive** /ɪn'sentɪv/

**Quota** /kwɒtə/

**Tariff** /tærɪf/

# Unit 20

## Before you read

Discuss these questions with your partner.

Look at the photos on pages 103 and 104.

- Where do you think the photos were taken?
- What do you imagine people's lives are like in these countries?
- Why do you think some economies are less developed than others?



## Reading 1

## Less developed countries

What do we mean when we say a country is *developed*? The United Nations uses three measures: life expectancy, education and real individual income. If we use these measures to describe the world, we quickly understand that only a privileged few live in developed countries. Poverty, for instance, causes the deaths of about 30,000 children every day. Over a billion people cannot read or write. Half the world earns less than \$2 a day. Clearly, most of the world's population live in less developed countries. But why is development so difficult for these nations?

There are many reasons. Some countries lack the raw materials and capital needed for growth. Others regularly suffer from natural disasters such as droughts and floods. Diseases such as cholera and AIDS are widespread in many less developed countries. This causes suffering to millions of individuals and families, but it is also disastrous for the economies of these nations. Lack of education also holds back development. This may be because governments cannot afford to provide schools and colleges. However, millions of families in these nations are caught in a poverty trap. This prevents their children from getting a basic education even when it is available. Without quality human capital, these economies cannot grow.

## A Vocabulary

Choose the correct word.

- 1 Many African countries were **nations** / **colonies** of European countries until the 20th century.
- 2 If your debt is **stopped** / **cancelled**, you don't need to pay the money back.
- 3 A **privileged** / **reluctant** person is able to have things that others cannot have.
- 4 Political **stability** / **instability** happens when a country's political system does not work properly.
- 5 A **grant** / **loan** is money given to someone (or a country) without them having to pay it back.
- 6 If you are **reluctant** / **willing** to do something, you don't really want to do it.
- 7 Another word for help is **aid** / **hamper**.
- 8 When something **aids** / **hampers** you, it stops you from doing what you want to do.
- 9 **Capital** / **Primary** goods are goods which are used in order to produce other goods, or things which can be consumed without being processed.
- 10 **Mature** / **Reluctant** means fully developed.
- 11 **Capital** / **Primary** goods are the factories and machinery that an economy needs in order to produce other goods.
- 12 Human **aid** / **capital** is the educational level and the health of the working population.



Political insecurity is another reason for underdevelopment. Many of these countries belonged to colonies in the past. When the foreign powers finally left, these countries often fell into years of political instability and war. Even when peace comes to these countries, political corruption makes development difficult as there is still a climate of political instability. Foreign companies do not want to invest in a country which suffers from corruption. Similarly, foreign governments are reluctant to give aid when they see that their money is spent badly or simply disappears.

All of these problems make it very difficult for less developed countries to improve their economies. However, there are other more complex issues which hamper development. The first of these is debt. The second is unfair trading. Many people believe that these two problems are the cause of all the other problems that developing countries face.

Many of the world's poorest countries are trapped in a cycle of debt. This is because they need to borrow money in order to pay the interest on debts they already have. The poorest 60 countries owe many hundreds of billions of dollars. However, they spend more money paying off debts than they receive in aid. Unless these debts are cancelled, these countries will never escape the cycle.

After years of slow development, it is hard for poorer countries to compete with developed countries for international trade. Without mature industries of their own, they must rely on exports of primary goods. These primary goods do not earn as much money as the products that developed countries export. What's more, because poor countries rely on grants from rich countries, they are often forced to spend the money on manufactured imports. This means they cannot buy the things they really need: capital goods to help their economies grow.

## B Comprehension

Now read the text again and choose the best answer A, B or C to complete each sentence.

- The majority of people in the world live ...  
 A in developed countries.  
 B in less developed countries.  
 C on less than a dollar a day.
- Natural disasters and disease ...  
 A happen more often in less developed countries.  
 B are worse in less developed countries.  
 C have a serious impact on the economy of less developed countries.
- Children often can't get an education because ...  
 A there's not enough human capital.  
 B governments don't wish to provide it.  
 C their families are poor.
- Political instability ...  
 A prevents investment.  
 B causes war.  
 C causes corruption.
- The poorest 60 countries ...  
 A receive many hundreds of billions of dollars in aid annually.  
 B receive less money in aid than they spend on repayments.  
 C spend less money on repayments than they receive in aid.
- Less developed countries are not able to spend enough money on ...  
 A primary goods.  
 B capital goods.  
 C imported goods.

## Before you listen

Discuss this question with your partner.

- Less developed countries have received aid (loans and grants) for decades. However, their economies have not grown. Why do you think this is?

## C Listening

Listen to someone talking about this problem. They mention four reasons why aid often doesn't help. What reasons are mentioned? As you listen, make notes about each reason.

- .....
- .....
- .....
- .....

# Before you read

Discuss this question with your partner.

→ These pictures are all connected with Russia in the 19th century. What do they show?

## D Vocabulary

Complete each sentence with a word from the box.

- authorities    ■ emancipation
- engineering    ■ estates    ■ feudal
- illiterate    ■ landlord/landlady    ■ leap
- peasant    ■ serf    ■ subsistence
- textile

- 1 In a ..... system, landowners owned the land and the people who worked on it.
- 2 The Eiffel Tower is an amazing piece of .....
- 3 A person who makes their living from farming a small piece of land is often called a .....
- 4 People who cannot read or write are .....
- 5 Someone who owns property and rents it to others is a .....
- 6 A ..... was a person who belonged to the owner of land.
- 7 The aristocracy own large areas of land called .....
- 8 ..... farming means you only just manage to survive on what is produced.
- 9 The ..... industry produces cloth, cotton and wool.
- 10 The people who rule the country are sometimes called the .....
- 11 ..... is another word for jump.
- 12 People have to be free – their ..... is necessary.



## Reading 2

# The Russian economy in the 19th century

The Russian empire grew enormously during the 19th century, covering land from Poland in the West to the Pacific coast in the East. The population also grew quickly. In economic terms, this meant an increase in two of the four factors of production: land and labour. You might think then, that the Russian economy at this time was booming. But until the 1860s, this was not true at all. Compared to other important powers like Britain, France and America, Russia's economy was hopelessly underdeveloped. Why was this so?

The main problem was Russia's feudal economic system. Almost 80 per cent of the population were peasants. They either worked on land owned by the state, or they were serfs. Serfs worked land that belonged to a small number of wealthy landlords. In return for a small piece of land and a place to live, serfs had to work for their landlords. In fact, the serfs didn't just work for their landlords - they belonged to them.



This system did not encourage economic growth. Peasants' labour was used in subsistence farming for their families or working to maintain their landlord's estate. Without surplus goods, there were no profits or savings. With no savings, domestic investment for growth was not possible. Russian agriculture still used the most basic technology, and almost the whole workforce was unskilled and illiterate.

In addition, the empire's industrial base was poorly developed. Before 1850, there were relatively few factories, mostly producing textiles. Some factories were run by the state, but many were run on the estates of landlords. Industrial technology was basic, and engineering education was not encouraged by the authorities.

To make matters worse, the Crimean War from 1853 to 1856 had weakened the Russian economy even more. Eventually, the Russian authorities realised that they had to do something about the economy. The empire was now surrounded by modern industrial powers. Russia had to make an economic leap into a new age.

The first step was the emancipation of the serfs. Tsar Alexander II finally made this happen in 1861. This meant that the population was no longer tied to the land and could provide labour for industry. With foreign investment, Russia began to build up its industries. The iron and steel industries grew rapidly. Mining of raw materials increased and industrial centres developed along the Don and Dnepr rivers. The output of the iron and steel industries helped to build a huge railway network, including the Trans-Siberian railway.

Growth continued and by the 1890s the Russian economy was experiencing a real boom. From five per cent in the 1860s, annual growth reached nine per cent in the 1890s - higher than anywhere else in Europe at the time. However, much of the growth was built with foreign debt. Agricultural methods and technology were still primitive. And what about the economy's human capital? The exploited serfs had now become exploited factory workers. The majority of the population remained totally illiterate and desperately poor. With the turn of the new century, how much longer could the boom continue?

## E Comprehension

Now read the text again and answer these questions in your own words in the space provided below.

- 1 What aspects of the Russian economy increased in the 19th century?
- 2 Give three reasons why Russia's economy was underdeveloped.
- 3 What two things helped the Russian economy grow?
- 4 How did ordinary people's lives change after industrialisation?

Notes:

## Before you listen

Discuss this question with your partner.

- What do you think life was like for the first factory workers in Russia and other European countries?

## F Listening

Now listen and complete the summary by choosing the best word or number for each gap.

Russia's early industries used (1) **serfs / slaves** for labour. These people were forced to leave the countryside to work in the nation's first factories. When the serfs were emancipated in 1861, conditions did not improve very much. A (2) **12- / 10-hour** working day was typical. Wages rose, but real value of those wages fell because of (3) **exchange rates / inflation**. Factories used many (4) **part-time / seasonal** workers who came from the countryside. They were often paid only (5) **once / twice** a year. Children were used as labourers in the (6) **mines / fields** and the textile industry. In the 1880s, about (7) **12 / 10** per cent of all textile workers were under (8) **12 / 15** years old.

## G Speaking

Discuss these questions with your partner.

- Are grants or loans the best way to help less developed countries grow?
- Apart from giving grants or loans, how can developed countries help less developed countries?
- Would you like to have lived in 19th century Russia?
- What do you think you would have found particularly difficult if you were a serf or peasant?

### Task

Give a two-minute talk on less developed nations saying why they haven't developed quickly. First, read text 1 again and your answers for the listening exercise on page 104. Make notes below about the following.

- the causes of underdevelopment
- why many countries have so much debt
- why aid doesn't always help
- what these countries need in order to develop

Notes:

## H Writing

Imagine that you are a factory inspector for the Russian government in 1890. You visit a textile factory and you are shocked by the conditions. Write a letter to the Finance Minister, Sergei Witte, telling him what you saw and what you want him to do about it.

## Letter from history

Remember, this is a formal letter:

Begin 'Dear Sir,' and finish 'Yours faithfully,' or 'Dear Mr Witte,' and finish 'Yours sincerely,'

Do not use contractions (eg 'is not' should be used instead of 'isn't')

**Use some or all of these words and expressions:**

I am writing in order to ...

Furthermore ...

It was disgraceful to see ...

I would appreciate it if you could look into this matter.

### GREETING

#### PARAGRAPH 1

Say that you are writing to complain about conditions in the factories.

#### PARAGRAPH 2

Explain where you went and why. Say what you saw there (age of the workers, conditions of the factory, conditions of accommodation for workers).

#### PARAGRAPH 3

Explain more about the pay workers receive and the hours they have to work.

#### PARAGRAPH 4

Say what you want the Minister to do in order to improve conditions.

Thank him and sign off

**Write 150-200 words**

### Pronunciation guide

**Privileged** /prɪvələdʒd/

**Mature** (adj) /mə'tʃʊə(r)/

**Instability** /ɪnstə'bɪləti/

**Cholera** /kə'lərə/

**Insecurity** /ɪnsɪkjuə'reti/

**Debt** /det/

**Owe** /əʊ/

**Crimean War** /kraɪ'miən wɔː/

**Feudal** /fjuːdl/

**Labourer** /leɪbə(r)/

# Unit 21

## Before you read

Discuss these questions with your partner.

Look at the photos opposite:

- Where were these photos taken?
- What can you see?
- What recent changes in Russian life do they show?



## A Vocabulary

Match the words and phrases with the definitions.

- |                   |  |
|-------------------|--|
| 1 expatriate      | A very high inflation                                      |
| 2 consumer goods  | B financial help from the government for a business        |
| 3 state-run       | C change   |
| 4 hardship        | D something that other people want                         |
| 5 reform          | E managed by the government                                |
| 6 severe          | F very strict or cruel                                     |
| 7 subsidy         | G basic things like food that everyone needs               |
| 8 crumbling       | H to grow very big very quickly                            |
| 9 staple goods    | I things that people buy but don't really need             |
| 10 fixed incomes  | J falling apart or collapsing                              |
| 11 to balloon     | K very difficult times - poverty                           |
| 12 hyperinflation | L someone who lives and works away from their home country |
| 13 enviable       | M salaries or pensions that do not grow with inflation     |
| 14 stabilise      | N become steady, unchanging                                |

## Reading 1

### Contemporary Russia: the fall and rise of the market economy

A recent survey compared the cost of living for expatriates in cities around the world. Not surprisingly, the top ten most expensive cities included Tokyo, London and New York. But more expensive than any of these was ... Moscow! Less than two decades ago, Moscow was the heart of the world's biggest planned economy. There was no property for sale back then. The state-run shops had few consumer goods. Shortages for simple things like shoes were common. Today, things could not be more different. Moscow is the centre of a free market with some of the highest property prices in the world. The state-run shops have been replaced by expensive shopping centres and designer stores. But the change has not been easy.

The figures for Russia's real gross domestic product since 1991, when the economic reforms began, show that the economy has been on quite a roller-coaster ride. In 1991 GDP was over \$350 billion. That fell dramatically year after year until 1998, when GDP was just over \$220 billion. However, the situation improved again from '98. In fact, Russia's GDP increased steadily year after year from 1999 until 2006 when it reached around \$740 billion. What caused such a change of fortunes?

Changing over to a completely different economic system could never be painless. The Russian government of the early 1990s decided to use a *shock therapy* approach. They introduced severe fiscal and monetary policies. The government drastically reduced its spending. It cut subsidies to its crumbling state industries. Interest rates and taxes were raised. Government price controls on nearly all consumer goods were lifted. Only prices for staple goods like food and energy remained controlled by the government. New laws were introduced to allow private ownership and businesses to exist.

All of these measures were intended to create conditions for a market economy to grow. However, they also caused great hardship for ordinary people. Most workers at that time were on fixed incomes. The measures caused the cost of living to rise, but their salaries did not rise at the same rate. To make matters worse, events in the banking system in 1992 caused the money supply to balloon. This resulted in *hyperinflation* levels of 2,000%. Despite Russia's enormous reserves of oil and gas, the economy went into a long and difficult depression. Finally, in 1998, when an economic crisis hit the East Asian Tigers, oil prices began to fall around the world. For Russia, it turned a depression into an economic crisis.

However, from 1999, world oil prices began to rise again. Mostly with money earned from energy exports, Russia began to pay off its foreign debts. Inflation fell and the value of the rouble stabilised. The economy was recovering. GDP grew steadily year after year, and foreign investors began to show confidence in investing in the country. Moscow's place at the top of the list of the world's most expensive cities is not enviable. However, it is a clear sign that the Russian economy has survived a difficult time.

## B Comprehension

Now read the text again and match each paragraph with the correct heading.

PARAGRAPH 1 .....

PARAGRAPH 2 .....

PARAGRAPH 3 .....

PARAGRAPH 4 .....

PARAGRAPH 5 .....

A Recovery

B Drastic measures

C Ups and downs

D Hard times

E Then and now

## Before you listen

Discuss this question with your partner.

- Has everyone benefited from the changes in the Russian economy in recent years? Think about who is better off and who is poorer.

## C Listening

You're going to hear three people expressing their views on the winners and losers in the Russian economic reforms. As you listen, make notes in the table.

	Winners	Losers
People		
Industries		
Places		

# Before you read

Discuss these questions with your partner.

- What do you think are Russia's main exports and imports?
- Where do you suppose most goods that you buy in Russian shops these days are made?
- Do you have any idea which is Russia's strongest industry today?

## D Vocabulary

Complete each sentence with a word or phrase from the box.

- arms    ■ broke ties with
- domestic consumption    ■ fall back on
- infrastructure    ■ open to
- privileged elite    ■ run down
- Socialist Bloc    ■ the future holds
- turnover

- 1 Factories become ..... if management don't look after buildings and invest in new equipment.
- 2 Nobody really knows what ....., but you should make plans anyway.
- 3 Many countries make lots of money selling ..... like tanks and guns to foreign armies.
- 4 In the West, the communist countries of the USSR were called the .....
- 5 When he left the company, he ..... all his old colleagues.
- 6 It's good to have some savings to ..... during hard times.
- 7 The company was very ..... my proposal for a new range of products.
- 8 Most of the wealth in modern industrial countries is owned by a small .....
- 9 Products for ..... are only sold in the country where they are made.
- 10 The ..... means the roads, railways, power and communication networks that industry needs.
- 11 The ..... of our new products has been very high and we have gained a good income from them.



## Reading 2

# Russia's foreign trade

Through most of the 20th century, Russia's, or the USSR as it was known for most of that century, trade with the outside world was mostly limited to trade with other members of the Socialist Bloc. It was self-sufficient in energy resources and primary goods. Its manufacturing industry was for domestic consumption only. Foreign consumer goods simply didn't exist. Investment from abroad was not encouraged because the government wanted full control of production and prices. But things have changed.

The Russia of the 21st century is much more *open to* business with the rest of the world. In the first six months of 2005, its total international trade turnover was worth about \$150 billion. Both exports and imports have grown in recent years, but exports are growing more rapidly in value. This is mainly through the sale of oil and gas. In fact, energy resources make up over two thirds of Russia's exports. The growing price of these commodities on world markets has brought huge amounts of foreign currency into the Russian economy. Metals are also important for the Russian economy. Russia's steel industry, for example, is one of the world's biggest. Other primary goods such as timber, minerals and fish are also important.

The value of trade isn't the only thing that has changed. There have been changes in Russia's trading partnerships, too. In the old Soviet days, and even in the years that followed the fall of



communism, Russia's main trading partners were other communist countries that used to be known as the COMECON (*Council for Mutual Economic Assistance*) countries. In the early 1990s, for example, Russia still had trade agreements to export energy resources to many former Soviet republics. As oil prices increased, however, many of these countries found it difficult to pay for Russian oil, and exports fell. At the same time, trade with other parts of the world, especially the European Union began to grow. Communist ties have not all been broken, though. One of Russia's most important trading partners is China.

But what does the future hold for the economy? The danger for Russia is that it relies very heavily on exports of oil, gas and minerals. Prices for these commodities can change suddenly on the world markets. What does Russia have to fall back on? At the moment, not very much. Its industrial sector is mostly run down and uncompetitive. During the Soviet years, a large part of the country's industrial strength was used to produce arms. Today, military equipment and weapons are still the biggest manufactured exports from Russia. It has to import almost all other manufactured goods.

Many economists believe that Russia must spend its oil money on investing in capital and infrastructure for industry. Doing this will encourage foreign investment and further economic growth. In turn, this will help to spread the benefits of growth to everyone in Russia, not just a privileged elite.

## E Comprehension

Now read the text again and decide whether these statements are true or false. If the statement is false, correct it in the space provided.

- During the Soviet times, Russia did not trade with other nations. T ☐ / F ☐
- The value of exports is growing faster than the value of imports. T ☐ / F ☐
- Metals are Russia's largest export. T ☐ / F ☐
- Many of Russia's old trading partners cannot afford its prices any more. T ☐ / F ☐
- Russia no longer trades with communist nations. T ☐ / F ☐

- Weapons are Russia's biggest export. T ☐ / F ☐
- Economists believe that Russia needs to invest more in its manufacturing industries. T ☐ / F ☐

### Notes:

## Before you listen

Discuss the following with your partner.

- Russia is the second largest oil producer in the world. It also produces huge amounts of natural gas. How many other oil or gas producing nations can you name?

## F Listening

Now listen to someone talking about Russia's oil and gas industry. Complete the notes with the correct number.

- Russia's gas reserves: (1) ..... cubic metres
- Russia's gas output: (2) ..... cubic metres per day
- Russia's oil reserves: (3) ..... barrels
- Russia's oil output: (4) ..... barrels per day
- Proportion of European oil and gas bought from Russia: (5) .....
- Proposed pipeline to connect Russia with China and South Korea:
- Length of proposed pipeline: (6) ..... km
- Cost of proposed pipeline: \$ (7) .....

## G Speaking

Discuss these questions with your partner.

- How have the economic changes in Russia affected you and your family?
- Do you think life in Russia is better or worse than it was five years ago?
- Are you optimistic about the future?

### Task

#### Plan the Russian economy

Work in groups of three or four. Work together to make a plan for the economy. Your goal is to achieve steady growth, full employment and low inflation in five years from now! When you have your plan, take turns to present it to the rest of the class. Your plan should include the following.

- fiscal and monetary policy
- education policy
- social policy – health care, pensions and transfer payments
- industrial policy – for example, what industries you will promote
- foreign trade policy
- environmental policy – how you will avoid negative externalities

Use the space below to make your notes.

Notes:

## H Writing

Imagine it is 2015. Where will you be? What will you be doing? What will the Russian economy be like? Write an informal letter to a foreign friend who has not visited Russia for many years.

### Letter from the future

#### INTRODUCTION

##### PARAGRAPH 1

Thank your friend for their last letter and respond to the news they told you.

##### PARAGRAPH 2

**Tell them your latest news:**

- What job are you doing?
- Where in Russia are you living now?
- Have you got a family?

##### PARAGRAPH 3

Describe how the Russian economy has got worse since 2008.

##### PARAGRAPH 4

Describe how the Russian economy has improved since 2008.

##### PARAGRAPH 5

Say what your plans are.

Sign off

Write 200-250 words

#### Pronunciation guide

**Subsidy** /səbsədi/

**Expatriate** (v) /eks'pætriət/ (n, adj) /eks'pætriət/

**Enviably** /enviəbl/

**Drastically** /dræstikli/

**Shock therapy** /ʃɒk θerəpi/

**Hyperinflation** /haɪpərɪnfleɪʃn/

**Infrastructure** /ɪnfə'strʌktʃə(r)/

**Elite** /eɪliːt/

**COMECON** /kə'mi:kən/

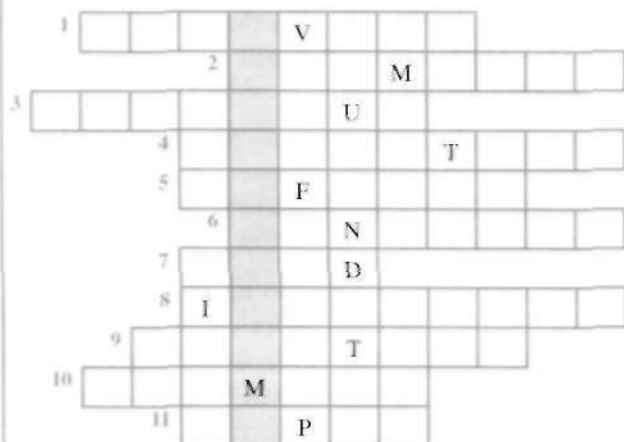
**Mutual** /mjuːʃʊəl/

**Privileged** /prɪvələdʒd/

# Revision Vocabulary

## Units 17 to 21

- A1** Complete the puzzle with words from units 17 to 21. Can you find the highlighted phrase?



### CLUES

- 1 Hopefully this will happen to the economy after a recession.
- 2 The value of imports compared to the value of exports is called the balance of .....
- 3 Managed by the government.
- 4 Something that encourages.
- 5 When the value of imports is greater than the value of exports, there is a trade .....
- 6 ..... goods are those which are not absolutely necessary.
- 7 A land..... is a man who rents out property.
- 8 People who lend money to companies so that they can grow.
- 9 A kind of exchange rate mechanism.
- 10 Goods that are raw materials for industry, or other goods that are not processed.
- 11 .....inflation is very, very high inflation.

- A2** Now write your own definition for the highlighted phrase.

- B1** Organise these words and phrases into two groups: those with a positive meaning and words with a negative meaning.

■ aid ■ boom ■ corruption  
 ■ deficit ■ emancipation ■ enviable  
 ■ fortunate ■ hardship ■ hyperinflation  
 ■ lay off ■ overheat ■ plenty  
 ■ political instability ■ progress  
 ■ recovery ■ run down ■ slump  
 ■ stabilise ■ struggle ■ value for money

- B2** Now make eight sentences using as many words as possible from this exercise.

- C** Complete this letter to a magazine with a suitable word in each gap. The first letter has been given.

Dear Editor,

When I read the article 'Tough Trade' in the February edition of your magazine I was very disappointed. You complained that my country has put unfair (1) **t**..... on imports of products from more (2) **d**..... economies such as the USA and the EU. You are also unhappy that we use (3) **q**..... to restrict the import of some goods. However, without these policies, our country would (4) **s**..... to survive and the trading (5) **p**..... we have would suffer.

Your government gives (6) **s**..... to many of its industries. This financial help means that your farms and factories can produce goods much more cheaply than ours. How can we compete? Also, please don't forget that until my grandfather's (7) **g**....., our country was a (8) **c**..... in your empire. We are still paying off the (9) **d**..... that you left behind when we finally won our freedom.

For these reasons, the trade restrictions that my government uses are (10) **e**..... for our economy.

So please - no more complaints!

Moses Samkange

# TRANSLATION WORK

## Unit 1

- 1 The science of economics studies business, production, trade, inflation, unemployment and the decisions that we, governments and companies take every day.
- 2 While microeconomics studies how companies and households run their business, macroeconomics looks at the economy of a country as a whole.
- 3 Economic resources include both material things such as raw materials, housing and others, as well as non-material things, for example, time.
- 4 Every day we make many decisions and each is a trade-off between different resources.
- 5 Economists collect data and on the basis of this data they create economic models.
- 6 Economic models show relationships between different processes in the economy.
- 7 Adam Smith, 'the father of modern economics', considered that a nation's wealth depended on its ability to produce goods.

## Unit 2

- 1 Economists test theories using empirical evidence. It is evidence that can be collected and measured.
- 2 This theory deals with factors such as inflation, taxes, salaries and unemployment.
- 3 Governments, companies and academics use econometrics to make correct decisions, find out relationships between variables, etc.
- 4 Some variables are considered over a period of time. Such analysis is called time-series.
- 5 According to the law of demand as the price for the good rises, the demand for it falls.
- 6 Price elasticity, the price/demand relationship, helps to set prices at the correct level in the given market for a particular time.
- 7 Some other factors apart from price affect demand, and that causes a shift in the demand curve.

## Unit 3

- 1 To make a higher profit the seller has to raise his price and reduce his production costs.
- 2 In the market economy companies have to compete with each other for a share of the market.
- 3 Today, in our lives and in the economy, money, coins, banknotes and credit cards play a very important role.
- 4 In the traditional economy people hunted and gathered and had no property. Land was shared by the whole tribe. Division of labour first appeared here.
- 5 Any economic system has its benefits and drawbacks. The biggest drawback of the traditional economy is the fact that people consume almost everything they produce.
- 6 The market economy is not controlled by a government. Competition, which helps to control prices and quality, exists in a free market.
- 7 A truly free market economy cannot exist as all governments control the economy to some extent by setting limits.

## Unit 4

- 1 In the market economy supply and demand decide everything; its direct opposite is the planned economy.
- 2 In a planned economy a government decides what is produced, how much is produced and how and at what price it is sold.
- 3 In the world there is no perfect economic system. Market economies have their strengths, but they also have drawbacks. In planned economies governments can make sure that everyone can afford basic commodities.
- 4 Planned economies have problems with supply as it is difficult to calculate how much to produce and how high a demand to expect. People have to hoard different goods and shortages of goods become common.
- 5 In many countries privately-owned businesses exist alongside state-run industries, which need protection from free market competition for their development.

- 6 Deregulation leads to increased competition and the influence of market forces.
- 7 Governments may put limits on free enterprise by banning trade in various goods, preventing monopolies and protecting consumers and the environment.

## Unit 5

- 1 If you have a great deal of money and want to buy something, you always face a budget constraint.
- 2 The utility of a bundle depends on the utility of each good and its quantity.
- 3 Marginal utility is that of consumption of an additional item of the good.
- 4 Costs are money spent to manufacture goods or provide services. For example, rent, interest on loans, cost of electricity and raw materials.
- 5 Fixed costs change neither in the short term nor with increases in production.
- 6 Variable costs change with the size of production. An example of such costs is the quantity of raw materials needed for production of the goods.
- 7 An economy of scale is a situation in which variable costs rise much more slowly than the size of production.

## Unit 6

- 1 Market structure is connected with competition. It affects the price.
- 2 A market of perfect competition has a number of features. There must be many competing companies, supplying one and the same good or providing one and the same service; all customers and companies must have complete information on the market; there must not be any barriers to new companies entering the market.
- 3 If we speak about a market of perfect competition, it is important that all companies should have access to technology and resources.
- 4 In a market of perfect competition there are many companies, but none of them are able to control prices.

- 5 In a monopoly the market share of one of the companies is so great that the rest are not able to compete.
- 6 As a rule, monopolies are not good for consumers as they are price-makers.
- 7 Besides natural monopolies, some monopolies can be created in more aggressive ways by takeovers of other companies.

## Unit 7

- 1 The market where employers buy workers' service for wages is called the labour market.
- 2 Increased output is the utility which employers get from their purchase of labour.
- 3 All markets, including the labour market, obey the laws of supply and demand.
- 4 The labour demand curve may shift to the right and to the left. If, for example, the demand increases as a result of increased production, or decreases thanks to any new technology which can replace workers.
- 5 One of the trade-offs we have to make in our lives is to find the right balance between work time and leisure time.
- 6 Natural limits such as sleep and rest bring down the possible number of working hours. We need some time to switch off from work, which also decreases working time.
- 7 If the hourly rate increases, people want to work longer hours. This is called the substitution effect. But the effect also has a limit.

## Unit 8

- 1 The factors of production are required to produce goods. These are land, labour and capital.
- 2 Land as a factor of production includes everything that nature provides and which may be used for production.
- 3 An educated, skilled and fit workforce is more productive; that is why education and healthcare play an important role in the economy.



- 4 Capital includes factories, warehouses, equipment, tools and computers; everything that is used in the manufacturing process.
- 5 At present industry is becoming more capital intensive and less labour intensive.
- 6 Division of labour and specialization make the manufacturing process more efficient and productive.
- 7 Workers perform their operations automatically. This speeds up the productivity of the labour force and improves the quality of their work.

## Unit 9

- 1 The market price is a reward for the efforts of the producer.
- 2 If the price on the market is lower than expected, the buyer will get a bargain.
- 3 Surplus measures the utility that the consumer gains from his purchase, or the profit that the producer makes.
- 4 The difference between the price that consumers are prepared to pay and the price that they really pay is called consumer surplus; it is a very important economic concept.
- 6 Companies make use of many pricing tricks which help them to increase their profits. Prices can be set higher or lower than the market price; sometimes companies use price discrimination.
- 7 Auctions are becoming very popular, for example, on the Internet. In an auction all participants make bids, and the highest wins.

## Unit 10

- 1 Though many economic laws, formulas, theories and concepts often seem far removed from everyday life, economic policies affect the life of society, families and individuals. Welfare economics considers issues of equity or fairness.
- 2 Economists examine how income and wealth are distributed among the population. And equity is realized through taxation.
- 3 According to those economists who share the concept of welfare economics, any economic system is unfair.

- 4 Governments receive revenues from different sources with taxation as the main one.
- 5 Through taxation governments achieve different goals. They decrease the income gap between the rich and the poor, they discourage people from consuming harmful products and they control overall supply and demand.
- 6 Most taxation revenues go on public goods which include national defence, street lighting, healthcare, education and others.
- 7 The effects which economic activities have on people are called externalities. These may be positive or negative. For example, industries can do harm to the environment.

## Unit 11

- 1 Wealth can include valuable belongings, money, gold, stocks and shares, works of art, land, property and precious jewels.
- 2 Besides a salary or an unemployment benefit, there are other sources of income. For example, interest from savings in a bank or rent from property.
- 3 The distribution of wealth in many countries has remained practically without change for many years. A large share of the wealth is concentrated in the hands of a small group of the population. Inequality is difficult to eradicate.
- 4 The Lorenz curve shows the relationship between income and population, in other words it represents how income is distributed in the market economy. The extent of the inequalities in income distribution can be judged from the curve.
- 5 Poverty is a global problem. Though it is mainly associated with developing countries, to some extent it also exists in developed countries.  
  
When we speak about absolute poverty, we mean the people who live below the poverty line.
- 7 People on a low income spend all the money they have on daily necessities. They cannot save.

## Unit 12

- 1 The Great Depression was a devastating collapse for the American economy the effects of which were felt almost in every country of the world. The depression changed attitudes to the science of economics.
- 2 After the depression of the 1930s, the most important aims of any government have become steady economic growth and control over inflation to avoid serious economic recessions.
- 3 Fiscal policy is connected with the tax system and the budget of the country. By this policy the government can influence disposable income, demand and economic growth.
- 4 The main tool of monetary policy is interest rates.
- 5 Aggregate demand is demand in the whole economy. It includes demand from consumers, companies, the government and customers abroad.
- 6 The value of all the services and products produced by the whole economy forms real national product.
- 7 The growth or falldown trend for supply and aggregate supply in the short run is the same, but in the long run aggregate supply growth is not affected by price, but depends on the factors of production available in the economy.

## Unit 13

- 1 Before the use of money, which is taken for granted by people today, the basic system of payment was swapping or bartering.
- 2 The first commodity money was metal, salt and other valuable commodities. Such money lacked liquidity, that is the ability to circulate freely, but it stored value.
- 3 Fiat money does not have any intrinsic value, but only represents value.
- 4 If you save money, you may put it in a box under your bed, which is unsafe and unreasonable, or you may put it in a bank account. The money in an account earns interest.

- 5 The main service which any bank provides to its customers is lending money. Banks are the most reliable lenders.
- 6 If a client defaults on a loan, the bank uses interest to cover the losses. Though most clients pay back their loans, interest serves as a form of security.
- 7 A banks' clients can make withdrawals at any time, as any bank keeps some percentage of the savings received from its clients as the reserve.

## Unit 14

- 1 Fiscal policy regulates the functioning of the tax system and government spending. Both affect economic growth.
- 2 A progressive taxation system operates in many countries of the world. The more money a person earns the higher the tax he pays.
- 3 Government spending can affect economic growth through the so-called multiplier effect.
- 4 Monetary policy involves making changes to the interest rate and controlling the money circulating in the economy.
- 5 The interest rate is usually set by the central bank of a country, which also serves as a lender for commercial banks.
- 6 When buying houses many people take out mortgages from commercial banks. If the interest rate increases, the mortgage becomes more expensive.
- 7 If the interest rate is low, companies invest and expand their business, the national currency value falls and national goods and services become cheaper for foreign buyers. Exports begin to grow and more money comes into the economy.

## Unit 15

- 1 A too rapid growth rate in the economy may cause inflation. A steady growth rate is preferred. This is the aim of monetary and fiscal policies.
- 2 The interest rate is determined by the levels of supply and demand in the money market.

- 3 Money supply is the money in circulation, including cash, money in bank accounts, reserves, etc.
- 4 Events like wars or natural disasters which cannot be controlled by governments may affect the economy in unexpected ways.
- 5 Demand-side shocks may occur in the countries heavily dependent on exports.
- 6 Shocks may be both demand-side and supply-side. They can cause a knock-on effect on the national economy or other economies.
- 7 When supply-side shocks occur, the supply of raw materials or components is disrupted. When some good is in short supply, its price rises, so do manufacturers' variable costs and their prices.

## Unit 16

- 1 One of the ways to measure the inflation level is the retail price index, which is calculated for the basket of goods.
- 2 Cost-push inflation occurs when prices rise without an increase in demand, which is common when producers' variable costs rise sharply.
- 3 Among other causes of rising inflation is the growth in the circulating money supply. This is explained by the quantity theory of money.
- 4 People with fixed incomes suffer most of all from rising inflation.
- 5 Unemployment can be cyclical or structural. Cyclical unemployment varies with growth or recession in the economy. Structural unemployment depends on the low demand for labour in some industries.
- 6 There are other types of unemployment. For example, frictional unemployment, when people are looking for new jobs, as well as seasonal unemployment, when some industries work seasonally.
- 7 The situation in which everyone who wants to work has a job is called full employment.

## Unit 17

- 1 When economic growth is calculated inflation is taken into account.

- 2 Sharp, sudden economic growth may cause the economy to overheat. Such growth is called a boom.
- 3 Savings, capital growth and technological progress are considered essential conditions for economic growth.
- 4 Technology advances lead to increased productivity from the same amount of capital and resources.
- 5 Long-term economic growth is often followed by a recession. Such a cycle is called the trade or business cycle. It has four stages: boom, slump, recession and recovery.
- 6 When demand for goods and services is steadily growing, companies have to take on more employees, consumers' confidence rises as their incomes also go up.
- 7 When the slump comes, the economy continues to grow but at slower rates. Inflation starts to rise, confidence falls.

## Unit 18

- 1 All through world history people and countries have been trading with each other. In the modern world an economy is considered open when it imports and exports goods and services.
- 2 Export and import of goods is defined as 'visible' in contrast to the 'invisible' export and import of services.
- 3 The balance of trade is an integral part of the balance of payment. If imports exceed exports, a country has a trade deficit, if the situation is the opposite, a country achieves a trade surplus.
- 4 Almost every country in the world has its national currency. Some countries share a common currency, for example, the 13 European Union member countries.
- 5 An exchange rate is the price of a currency. Like any price it is decided by supply and demand in the market.
- 6 The rate of exchange is the equilibrium between demand for the currency and its supply.
- 7 A change in the exchange rate of the currency always has an impact on the country's economy. For example, if the rate of exchange

risers, the country's goods get more expensive and demand for them abroad falls. As a result the country's exports may decrease.

## Unit 19

- 1 The exchange rate may affect the whole economy: interest rates, balance of payments and economic growth.
- 2 When a currency is free floating the government does not control its rate of exchange and the currency is priced by the market.
- 3 When a government wants its national currency to float with some other currency, for example, the dollar or the euro, it pegs it to that currency.
- 4 If a government wants to maintain the rate of its national currency, it has to sell or to buy it or other currencies on the international money market.
- 5 All countries can have absolute and comparative advantages. If an economy can produce goods at a lower cost than other countries or has resources others do not have then the country has absolute advantage.
- 6 An economy has comparative advantage when it can produce something at a lower opportunity cost than other countries.
- 7 In some cases countries have to restrict trade with other countries. For example, a government may increase tariffs on imports or impose import quotas.

## Unit 20

- 1 There are several ways to measure how developed a country is. They are, first of all, life expectancy, education level and real income of the population.
- 2 In the less developed countries of the world many people die of hunger or because of poverty and millions of people can neither read nor write.
- 3 The populations of the poorest countries suffer from natural disasters, serious diseases like AIDS and cholera are also widespread.
- 4 The Russian empire stretched from Poland in the West to the Pacific Ocean in the East. Russia had the biggest territory, but

economically it was far behind the leading world powers.

- 5 The Russian empire preserved a feudal economic system and subsistence farming; most of the population remained serfs till 1861.
- 6 Russia's industrial base was poorly developed and the population was mainly illiterate and unskilled. In the country there were few factories. Mechanical engineering was not developed during this period.
- 7 The emancipation of serfs and increased foreign investments helped Russian to build up manufacturing industries. The steel industry was rapidly developed, a railway network was constructed, and mining output increased.

## Unit 21

- 1 In Moscow in the 1990s, state-run shops with few consumer goods were replaced by expensive shopping centres. The city has become one of the most expensive cities in the world.
- 2 At the beginning of the 1990s the Russian government used a 'shock therapy' approach. Severe fiscal and monetary measures were introduced. Government controls over prices for all consumer goods except for staple goods were lifted.
- 3 In the period before the crisis, taxes and interest rates were raised and subsidies to state industries were cut. Events in the banking system caused the money supply to balloon.
- 4 The Soviet Union traded mainly with the Comecon countries. Primary products and energy resources were traded under full control of foreign trade prices.
- 5 Russia's foreign trade turnover has been rising lately with exports growing in value much faster than imports.
- 6 Russia exports primary products: oil, natural gas, timber, metals, steel, fish. Oil and gas make up about two-thirds of Russia's exports.
- 7 Most manufacturing industries are uncompetitive and run-down. That is why it is necessary to invest oil money in infrastructure and capital.

## GLOSSARY

## A

**absolute advantage** /æbsəlu:t əd'vɑ:ntɪdʒ/ абсолютное преимущество

**abundance** /ə'bandəns/ изобилие

**access to smth** /ækses/ доступ (к чему-либо)

**accommodation** /ə,kɒmə'deɪʃən/ жилье

**to affect** /ə'fekt/ оказывать влияние (*часто негативное*)

**affordable** /ə'fɔ:dəbl/ по средствам

**aggregate** /ægrɪgət/ совокупный

**assets** /æsets/ активы; имущество

**ATM** /eɪ ti: 'em/ (automatic teller machine /ɔ:tə'mætɪk 'telə mə'ʃi:n/) банкомат

**auction** /ɔ:kʃn/ аукцион

**autarchy** /ɔ:tə:ki/ автаркия (*экономический режим страны, предполагающий ее самообеспечение и отсутствие торгового обмена с другими странами*)

**average** /ævərɪdʒ/ средний

## B

**baby boom generation** /beɪbi ,bu:m dʒenə'reɪʃn/ поколение, родившееся после второй мировой войны в период бума рождаемости

**balance of payments** /bæləns əv 'peɪmənts/ платежный баланс

**to balloon** /bə'lu:n/ расти до огромных размеров

**to ban** /bæn/ запретить

**to ban trade** /bæn 'treɪd/ запретить торговлю

**band** /bænd/ интервал, диапазон

**bank account** /bæŋk ə'kaʊnt/ банковский счет

**bargain** /'bɑ:gɪn/ сделка; выгодное приобретение

**barrier** /'bæriə(r)/ барьер

**bartering** /'bɑ:tərɪŋ/ (*мж. barter*) бартер, товарообмен

**basket of goods** /'bɑ:skɪt əv 'ɡʊdz/ корзина товаров

**to be at risk** /bi: ət 'rɪsk/ рисковать

**to be in short supply** /bi: ɪn ʃɔ:t sə'plaɪ/ быть в небольшом, ограниченном количестве (*о товаре*)

**to be pegged against smth** /bi: peɡd ə'ɡenst ,sʌmθɪŋ/ быть привязанным к чему-либо (*о валюте*)

**benefit** /benɪfɪt/ 1. преимущество 2. выгода, прибыль

**Black Tuesday** /blæk 'tʃu:zdeɪ/ черный вторник

**boom** /bu:m/ бум

**to borrow money** /'bɒrəʊ 'mʌni/ брать в долг

**borrowing** /'bɒrəʊɪŋ/ заём

**bottom line** /'bɒtəm 'laɪn/ практический результат, итог

**budget constraints** /'bʌdʒɪt kən'streɪnts/ ограничения денежных средств; бюджетные ограничения

**bundle** /'bʌndl/ набор; корзина (*товаров*)



**business cycle** /ˈbiznəs saɪkl/ экономический цикл, цикл деловой активности

**to buy smth on credit** /baɪ ˌsʌmθɪŋ ɒn ˈkredit/ покупать что-либо в кредит

## С

**to calculate** /kælkjuleɪt/ рассчитывать; делать вычисления

**capacity** /kəˈpæsəti/ мощность

**capital goods** /kæpɪtl ɡʊdz/ инвестиционные товары; капитальные блага

**capital-intensive** /kæpɪtl ɪnˈtensɪv/ капиталоемкий

**cash** /kæʃ/ наличные деньги

**cash till** /kæʃ ˌtɪl/ касса (в магазине, банке)

**Chancellor of the Exchequer** /tʃænsələ(r) əv ði ɪksˈtʃekə(r)/ канцлер казначейства (министр финансов Великобритании)

**to charge a price** /tʃɑːdʒ ə ˈpraɪs/ взимать цену

**to charge for service** /tʃɑːdʒ fɔː ˈsɜːvɪs/ брать плату за услугу

**to charge interest on loans** /tʃɑːdʒ ɪnˈtrəst ɒn ˌləʊnz/ начислять проценты на кредиты

**chart** /tʃɑːt/ график

**cheque book** /tʃekbʊk/ чековая книжка

**to collect a tax** /kəˌlekt ə ˈtæks/ собирать налог

**to collect data** /kəˌlekt ˈdeɪtə/ собирать данные

**colony** /kəˈləni/ колония

**COMECON** /kəˈmɪkɒn/ (Council for Mutual Economic Assistance or Aid) Совет экономической взаимопомощи (социалистических стран Европы), СЭВ

**commodity** /kəˈmɒdəti/ товар (преимущественно биржевой или сырьевой)

**commodity money** /kəˈmɒdəti ˌmʌni/ товарные деньги

**comparative advantages** /kəmˌpærətɪv ədˈvɑːntɪdʒɪz/ сравнительные преимущества

**to compete** /kəmˈpiːt/ конкурировать

**competition** /kəmˌpɛtɪʃn/ конкуренция

**concept** /kɒnsept/ понятие; концепция

**consequence** /kɒnsɪkwəns/ последствие

**constant return to scale** /kɒnstənt rɪˈtʃɪːn tə skeɪl/ постоянный возврат к масштабу; постоянный эффект масштаба производства

**consumer choice** /kənˌsjʊːmə(r) ˈtʃɔɪs/ выбор потребителя

**consumer goods** /kənˌsjʊːmə(r) ɡʊdz/ потребительские товары

**consumption** /kənˈsʌmpʃn/ потребление

**to contract** /kənˈtrækt/ 1. уменьшаться (в размере, объеме) 2. заключать контракт

**control over price** /kənˈtrəʊl əʊvə ˈpraɪs/ контроль над ценой

**convenience** /kənˈvɪniəns/ благоприятная возможность, благоприятное положение

**conveyer belt** /kənˈveɪə ˌbelt/ (мж. conveyer) конвейер

**copper** /kɒpə/ медь

**cost** /kɒst/ (обычно мн. ч.) стоимость, издержки (расходы фирмы на производство товаров или услуг в течение определенного периода времени)

**to cost a fortune** /kɒst ə 'fɔ:ʃʊn/ стоить целое состояние

**cost of living** /kɒst əv 'lɪvɪŋ/ уровень жизни

**cost-push inflation** /kɒst puʃ ɪn'fleɪʃn/ инфляция издержек (инфляция, вызываемая уменьшением совокупного предложения в результате роста издержек производства; сопровождается сокращением реального объема производства и увеличением безработицы)

**counterfeit** /kaʊntə'feɪt/ поддельный, фальшивый

**to cover loss** /kʌvə(r) 'lɒs/ покрывать убытки

**cowry** /kaʊri/ каури (раковина, заменяющая деньги в некоторых частях Азии и Африки)

**to crash** /kræʃ/ (of a market) рухнуть (о рынке)

**credit card** /kredit kɑ:d/ кредитная карта

**crook** /kru:k/ мошенник

**cross-sectional analysis** /krɒs sekʃənl ə'nælə'sɪs/ структурный анализ

**crude oil** /kru:d 'ɔɪl/ (сырая) нефть

**culprit** /kʌlprɪt/ причина (чего-либо плохого)

**currency** /kʌrənsi/ валюта

**curve** /kɜ:v/ кривая

**custom** /kʌstəm/ обычай

**customer** /kʌstəmə(r)/ покупатель, клиент

**cyclical unemployment** /saɪkklɪkəl ʌnɪm'plɔɪmənt/ циклическая безработица

## D

**damage to the environment** /dæmɪdʒ tə ði: ɪn'vaɪrənmənt/ ущерб окружающей среде

**datum** /deɪtəm/ (мн. ч. data) данное; данная величина

**debt** /det/ долг

**to default on a loan** /dɪ'fɔ:lt ɒn ə 'ləʊn/ отказаться вернуть кредит

**deflation** /dɪ'fleɪʃn/ дефляция (снижение общего уровня цен, процесс противоположный инфляции)

**degree** /dɪ'ɡri:/ степень

**demand** /dɪ'ma:nd/ спрос

**demand-pull inflation** /dɪ'ma:nd pul ɪn'fleɪʃn/ инфляция спроса (инфляция, вызываемая увеличением совокупного спроса)

**deposit** /dɪ'pɒzɪt/ вклад

**to deposit** /dɪ'pɒzɪt/ делать вклад

**deregulation** /dɪ'regju:leɪʃn/ разгосударствление; уменьшение вмешательства государства в экономику; дерегулирование

**designer store** /dɪ'zaɪnə ,stɔ:/ магазин дизайнерской одежды, мебели и пр.

**designing** /dɪ'zaɪnɪŋ/ конструирование

**discount** /dɪs'kaʊnt/ скидка

**to discourage smb from doing smth** /dɪs'kaɪrɪdʒ ,sʌmʍʌn frəm 'du:ɪŋ ,sʌmθɪŋ/ не давать кому-либо делать что-либо

**dis-economy of scale** /dɪs'kɒnəmi əv ,skeɪl/ процесс, обратный экономии на масштабе

**disposable income** /dɪspəʊzəbl 'ɪnkʌm/ доход, которым располагает лицо после уплаты налогов, взносов в систему страхования и других вычетов

**to distribute** /drɪstrɪbjʊt/ распределять

**distribution** /dɪstrɪ'bjuːʃn/ распределение

**division of labour** /dɪvɪʒn əv 'leɪbə(r)/  
разделение труда

**divorce rate** /dɪ'vɔːs reɪt/ уровень разводов

**domestic consumption** /də'mestɪk kən'sʌmpʃn/  
внутреннее потребление

**domestic economy** /də'mestɪk ɪ'kɒnəmi/  
внутренняя экономика

**drawback** /drɔːbæk/ недостаток

**drought** /draʊt/ засуха

## Е

**earnings** /ɜːnɪŋz/ заработанные деньги; доходы

**economic thinking** /iːkə'nɒmɪk 'θɪŋkɪŋ/  
экономическое мышление

**economy of scale** /ɪkɒnəmi əv 'skeɪl/ экономия на масштабе; эффект масштаба производства

**effect** /ɪ'fekt/ влияние; воздействие

**emancipation of serfs** /ɪmænsɪ'peɪʃn əv  
sɜːfs/ освобождение крепостных; отмена  
крепостного права

**embargo** /ɪm'bɑːgəʊ/ эмбарго, запрет

**empirical** /ɪm'prɪŋkl/ эмпирический, опытный,  
основанный на опыте

**employer** /ɪm'plɔɪə(r)/ работодатель

**to encourage smb to do smth** /ɪnˌkʌrɪdʒ  
,sʌmwan tə 'duː ,sʌmθɪŋ/ поощрять кого-либо  
делать что-либо

**end product** /end 'prɒdʌkt/ (мж. final product)  
конечный продукт

**to enjoy a monopoly** /ɪnˌdʒɔɪ ə mə'nɒpəli/  
обладать монополией

**to enjoy surplus** /ɪnˌdʒɔɪ 'sɜːpləs/ получать  
избыток

**to enter the market** /entə(r) də 'mɑːkɪt/  
выходить на рынок

**entrepreneurship** /ˌɒntreɪprə'nɜː(r)ʃɪp/  
предпринимательство

**equilibrium point** /iːkwɪ'brɪəm ,pɔɪnt/ точка  
равновесия

**equipment** /ɪ'kwɪpmənt/ оборудование

**equity** /ekwəti/ справедливость

**to eradicate** /ɪ'rædɪkeɪt/ искоренять

**essential** /ɪ'senʃl/ существенный, очень важный

**estate** /ɪ'steɪt/ поместье, имение

**euro zone** /jʊə'reɪʊ ,zəʊn/ еврозона, зона евро  
(входит 13 стран-членов Европейского  
Союза)

**exception to the law** /ɪk'sepʃn tə ðə 'lɔː/  
исключение из закона

**to exchange** /ɪks'tʃeɪndʒ/ обменивать

**exchange rate** /ɪks'tʃeɪndʒ reɪt/ обменный или  
валютный курс

**exchange rate mechanism** /ɪks'tʃeɪndʒ reɪt  
'mekənɪz(ə)m/ валютный механизм, механизм  
обменных курсов

**to expand business** /ɪkˌspænd ˈbɪznəs/

расширять бизнес

**to expand production** /ɪkˌspænd prəˈdʌkʃn/

расширять производство

expatriate /eksˈpætriət/ эмигрант; беженец;

экспатриант (человек, добровольно или

принудительно покинувший родину)

**expenditure** /ɪkˈspendɪtʃə(r)/ расходы

(особенно государственные); затраты,

издержки

**to exploit advantages** /ɪkˌsplɔɪt ədˈvɑːntɪdʒɪz/

использовать преимущества

**extent** /ɪkˈstent/ степень; объем

**externalities** /ɛkstɪzˈnælətɪz/ экстерналии,

внешние эффекты (последствия

производственной и потребительской

деятельности экономических субъектов,

косвенно отражающиеся на рынке)

**extreme poverty** /ɪkˈstriːm ˈpɒvəti/ крайняя

бедность

## F

**factors of production** /ˈfæktəz əv prəˈdʌkʃn/

(land, labour and capital) факторы

производства (земля, труд и капитал)

**fake** /feɪk/ подделка

**fiat money** /fiːæt ˈmʌni/ бумажные деньги (не

обеспеченные золотом)

**fiscal policy** /ˈfɪskl ˈpɒləsi/ налогово-бюджетная

политика

**fixed costs** /ˈfɪkst ˈkɒsts/ постоянные издержки

(затраты фирмы, величина которых не

меняется при изменении объемов выпуска

фирмы)

**fixed exchange rate** /ˈfɪkst ɪksˈtʃeɪndʒ reɪt/

фиксированный валютный курс

**fixed income** /ˈfɪkst ˈɪnkʌm/ постоянный доход

**foreign exchange market** /ˈfɔːrɪn ɪksˈtʃeɪndʒ

ˈmɑːkɪt/ валютный рынок

**to forge money** /fɔːdʒ ˈmʌni/ подделывать

деньги

**Forex** /ˈfɔːrɪks/ (сокр. от foreign exchange; тж.

FX) валюта

**free enterprise** /friː ˈentəpraɪz/ свободное

предпринимательство

**free floating mechanism** /friː ˈfləʊtɪŋ

ˈmekənɪz(ə)m/ механизм свободного плавания

валюты

**free schooling** /friː ˈskuːlɪŋ/ бесплатное

школьное образование

**freelance** /ˈfriːlɑːns/ внештатный; независимый

**frictional unemployment** /ˈfrɪkʃənəl

ˈlɪmɪtˈplɔɪmənt/ фрикционная безработица

(безработица, связанная с добровольной

сменой рабочими места работы и периодами

временного увольнения)

## G

**to gain** /geɪn/ приобретать

**GDP per capita** /dʒiː diː ˌpiː pər ˈkæpɪtə/ ВВП

на душу населения

**to go bankrupt** /gəʊ ˈbæŋkrʌpt/ обанкротиться

**to go on strike** /ˌɡəʊ ɒn 'straɪk/ объявлять забастовку

**goods** /ɡʊdz/ товары

**Great Depression** /ɡreɪt dɪ'preʃn/ Великая депрессия

**Gross Domestic Product** /ɡrəʊs də'mestɪk 'prɒdʌkt/ (GDP) валовый внутренний продукт (ВВП)

**Gross National Product** /ɡrəʊs næʃənəl 'prɒdʌkt/ (GNP) валовый национальный продукт (ВНП)

## H

**to hamper development** /hæmpə dɪ'veləpmənt/ препятствовать развитию

**hardship** /hɑ:dʃɪp/ трудности, лишения, невзгоды

**hardworking** /hɑ:d'wɜ:kɪŋ/ прилежный

**health bill** /helθ bɪl/ счет за медицинские услуги

**healthcare** /helə'keə/ здравоохранение

**heating fuel** /hi:tɪŋ fju:əl/ топливо

**high street bank** /haɪ 'stri:t ,bæŋk/ банк, отделения которого находятся на центральных улицах большинства городов страны

**high tech industries** /haɪ ,tek 'ɪndəstri:z/ высокотехнологичные отрасли

**to hold value** /həʊld 'vælju:/ сохранять стоимость

**horizontal axis** /hɒrɪzɒntl 'æksɪs/ горизонтальная ось

**horizontal takeover** /hɒrɪzɒntl 'teɪkəʊvə(r)/ горизонтальное поглощение

**household** /haʊshəʊld/ домашнее хозяйство

**household budget** /haʊshəʊld 'bʌdʒɪt/ семейный бюджет

**housing** /haʊzɪŋ/ жилье; жилищное строительство

**hyperinflation** /haɪpə'ɪnfləɪʃn/ гиперинфляция

## I

**imperfect competition** /ɪm'pɜ:fɪkt kɒmpə'tɪʃn/ несовершенная конкуренция (*рынок, где существует определенная власть над ценой со стороны одного или нескольких производителей*)

**in bulk** /ɪn 'bʌlk/ оптом, в большом количестве

**incentive** /ɪn'sentɪv/ стимул

**income effect** /ɪn'kʌm ɪ'fekt/ эффект дохода (*воздействие, которое изменение цены товара оказывает на реальный доход потребителя и соответственно на количество товара, которое потребитель готов купить*)

**income tax** /ɪn'kʌm tæks/ подоходный налог

**indifference curve** /ɪn'dɪfrəns kɜ:v/ кривая безразличия (*кривая, показывающая различные комбинации двух продуктов, имеющих одинаковое потребительское значение, или полезность, для потребителя*)

**industrialised nations** /ɪn'dʌstriəlaɪzd 'neɪʃnz/ промышленно развитые страны

**inelastic** /ɪnɪ'læstɪk/ неэластичный

**inequality** /ɪnɪ'kwɒləti/ неравенство



**infrastructure** /ɪnfəstrʌktʃə(r)/

инфраструктура

**inherent** /ɪn'hɪərənt/ присущий, свойственный

**interest on loan** /ɪntrəst ɒn ˌləʊn/ процент по кредиту

**interest rate** /ɪntrəst reɪt/ процентная ставка

**intrinsic** /ɪn'trɪnsɪk/ присущий, свойственный

**'invisible hand'** /ɪnˌvɪzəbl 'hænd/ «невидимая рука» (рынка)

**iron and steel industries** /aɪən ən 'stiːl ɪndʌstriːz/ чугунная и сталелитейная отрасли

**iron** /aɪən/ железо; чугун

## К

**knock-on effect** /nɒkɒn ɪˈfekt/ (мж. knock on и knock on) эффект домино

## L

**labour** /leɪbə(r)/ труд

**labour-intensive** /leɪbər ɪn'tensɪv/ трудоемкий

**landlord** /ˈlændlɔːd/ помещик

**law of diminishing returns** /lɔː əv dɪˌmɪnɪʃɪŋ rɪˈtʃːnz/ закон убывающей отдачи (принцип, согласно которому дополнительное использование переменного ресурса при неизменном количестве постоянного ресурса с определенного момента ведет к сокращению предельной отдачи или предельного продукта)

**to lay off** /leɪ ˈɒf/ увольнять

**legal monopoly** /liːgl məˈnɒpəli/ монополия, созданная юридическим путем

**to lend money** /lend ˈmʌni/ ссужать деньги, давать в долг

**lender** /ˈlendə(r)/ кредитор

**life expectancy** /laɪf ɪkˌspektənsi/ продолжительность жизни

**liquidity** /lɪˈkwɪdəti/ ликвидность

**long run** /lɒŋ ɡʌn/ длительный, долгосрочный

**luxuries** /ˈlʌkʃəriːz/ предметы роскоши

## М

**machinery** /məˈʃɪnəri/ оборудование

**macroeconomics** /mækrəʊɪkəˈnɒmɪks/ макроэкономика

**to make (both) ends meet** /meɪk (bəʊθ) endz ˈmiːt/ сводить концы с концами

**to make a bid** /meɪk ə ˈbɪd/ предлагать цену (на аукционе)

**to make a profit** /meɪk ə ˈprɒfɪt/ получать прибыль

**manual work** /mænjuəl ˈwɜːk/ физический труд

**to manufacture goods** /mænjuˈfæktʃə ˈɡʊdz/ производить товары

**manufactured imports** /mænjuˈfæktʃəd ɪmˈpɔːts/ импорт промышленных товаров/готовых изделий

**marginal costs** /mɑːdʒɪnl ˈkɒsts/ предельные издержки (прирост общих издержек фирмы от производства одной дополнительной единицы продукции)

**marginal utility** /ˈmɑːdʒɪnl juːtɪləti/ предельная полезность (дополнительная полезность, получаемая человеком от потребления одной дополнительной единицы данного блага за единицу времени)

**market economy** /ˈmɑːkɪt ɪˈkɒnəmi/ рыночная экономика (экономическая система, основанная на частной собственности и использовании механизма спроса и предложения для решения основных экономических вопросов)

**to market goods** /ˈmɑːkɪt ˈɡʊdz/ продавать товары

**marketable wealth** /ˈmɑːkɪtəbl ˈwelθ/ блага, реализуемые через рынок

**mark-up price** /ˈmɑːklɜːp ˈpraɪs/ цена с надбавкой к издержкам производства

**mass production** /ˈmæs prəˈdʌkʃn/ массовое производство

**mature industry** /məˈtʃʊə ˈɪndəstri/ сложившаяся, развитая отрасль

**to meet demand** /miːt dɪˈmɑːnd/ удовлетворять спрос

**mental work** /ˈmentl ˈwɜːk/ умственный труд

**measure** /ˈmeʒə/ показатель

**merchant** /ˈmɜːtʃənt/ купец

**microeconomics** /ˈmaɪkrəʊɪkəˈnɒmɪks/ микроэкономика

**miner** /maɪnə(r)/ шахтер

**mixed economy** /ˈmɪkst ɪˈkɒnəmi/ смешанная экономика (экономическая система, основанная на различных формах собственности, хозяйственное развитие которой регулируется рынком, традициями и централизованными решениями)

**mixed public goods** /ˈmɪkst ˌpʌblɪk ˈɡʊdz/ смешанные общественные блага

**money market** /ˈmʌni ˈmɑːkɪt/ денежный рынок, валютный рынок

**monopsony** /ˈmɒnəpsəni/ монопосония (рынок, на котором действует лишь один покупатель товара, услуги или ресурса)

**mortgage** /ˈmɔːɡɪdʒ/ ипотека, закладная; ипотечный кредит

**multiplier** /ˈmʌltɪ plaɪə/ мультипликатор (коэффициент, показывающий отношение равновесного реального объема производства к изменению объема инвестиций или к изменению любого компонента совокупных расходов)

**multiplier effect** /ˈmʌltɪplaɪər ɪˈfekt/ эффект мультипликатора

## N

**national defence** /ˈnæʃənl dɪˈfens/ национальная оборона

**national income** /ˈnæʃənl ˈɪnkʌm/ национальный доход

**national output** /ˈnæʃənl ˈaʊtpʊt/ общий объем продукции, произведенной в данной стране, совокупный продукт

**natural disaster** /ˈnætʃrəl dɪˈzɑːstə(r)/ стихийное бедствие

**net investment** /net in'vestmənt/ чистые инвестиции

**net revenue** /net 'revənju:/ чистый доход

**network** /netwɜ:k/ сеть; система

**number crunching** /nʌmbə ,krʌntʃɪŋ/ сложные математические расчеты

## О

**to obey law** /əbeɪ 'lɔ:/ подчиняться закону

**oligopoly** /olɪ'gɒpəli/ олигополия  
(относительно небольшое количество производителей однородной продукции при частичном контроле над ценами)

**open economy** /əʊrən 'kɒnəmi/ открытая экономика

**open market operations** /əʊrən mɑ:kɪt  
ɒpə'reɪʃnz/ операции на открытом рынке

**opportunity costs** /ɒpətju:nəti kɒst/ издержки упущенных возможностей

**order** /ɔ:də(r)/ заказ

**output** /aʊtpʊt/ объем выпуска, выпуск (продукции)

**to overheat** /əʊvə'hɪt/ перегревать(ся)

**overheating** /əʊvə'hɪtɪŋ/ перегрев

**to owe** /əʊ/ быть должным

**ownership** /əʊnə(r)ʃɪp/ собственность, право собственности

## Р

**to package** /pækɪdʒ/ упаковывать

**panel data analysis** /pænl ,deɪtə ə'næləsɪs/  
анализ панельных данных (анализ показателей по определенному фиксированному количеству участников экономической деятельности, производимый в течение нескольких периодов времени)

**part-time employee** /pɑ:t taɪm ɪm'plɔɪi/  
работник, работающий неполный рабочий день

**pay** /peɪ/ оплата; зарплата

**to pay back** /peɪ 'bæk/ возвращать деньги (долг, кредит)

**to pay off a debt** /peɪ ,ɒf ə 'det/ покрывать долг; рассчитываться по долгу

**pay rise** /peɪ raɪz/ повышение зарплаты

**peasant** /pezn̩t/ крестьянин

**pegging** /peɡɪŋ/ привязка валютного курса к другой валюте (или корзине валют)

**to penalise** /pi:nəlaɪz/ наказывать; штрафовать

**pension scheme** /penʃn ski:m/ пенсионная схема

**perfect competition** /pɜ:fɪkt ,kɒmpə'tɪʃn/  
совершенная конкуренция (рынок, на котором действует неограниченное количество независимых друг от друга производителей, выпускающих однородную продукцию при отсутствии неценовой конкуренции и барьеров для вхождения на рынок новых фирм)

**planned economy** /plænd 'kɒnəmi/ (тж. command economy) плановая экономика (экономическая система, в которой

*материальные ресурсы являются государственной собственностью, экономическая деятельность общества осуществляется посредством централизованного планирования)*

**political corruption** /pəˈlɪtɪkl kəˈrʌpʃn/ коррупция в политике

**political insecurity** /pəˈlɪtɪkl ɪnsɪˈkjʊərəti/ политическая нестабильность

**political unrest** /pəˈlɪtɪkl ʌnˈrest/ политические беспорядки

**poverty** /ˈpɒvəti/ бедность

**poverty line** /ˈpɒvəti ˌlaɪn/ черта бедности

**‘poverty trap’** /ˈpɒvəti ˌtræp/ «ловушка нищеты» (*ситуация, при которой повышение доходов семьи с низкими доходами, влечет за собой либо утрату госльгот, либо повышение налогообложения, которое «съедает» повышение доходов*)

**power** /ˈpaʊə(r)/ 1. держава 2. право, власть

**precious jewel** /ˈpreʃəs ˈdʒuːəl/ драгоценный камень

**precious metal** /ˈpreʃəs ˈmetl/ драгоценный металл

**to predict** /prɪˈdɪkt/ предсказывать

**predictable** /prɪˈdɪktəbl/ предсказуемый

**premises** /ˈpremisɪz/ помещения

**price discrimination** /praɪs dɪˌskrɪmɪˈneɪʃn/ ценовая дискриминация (*практика установления разных цен на различные единицы одного и того же товара для одного или разных покупателей в условиях несовершенной конкуренции*)

**price elasticity** /praɪs ɪləˈstɪsəti/ эластичность цены

**price maker** /praɪs ˌmeɪkə(r)/ компания, устанавливающая цены на рынке

**price point** /praɪs ˌpɔɪnt/ 1. точка цены (*на графике*) 2. ценовой ориентир, ценовая точка (*уровень цен, принятый в качестве ориентира при совершении каких-либо операций*)

**price taker** /praɪs ˌteɪkə(r)/ соглашающийся с ценой

**primary goods** /ˈpraɪməri ɡʊdz/ сырьевые товары

**primary industries** /ˈpraɪməri ˌɪndəstrɪz/ добывающие отрасли

**printing business** /ˈprɪntɪŋ ˌbɪznəs/ типографский бизнес

**private sector** /ˈpraɪvət ˈsektə(r)/ частный сектор

**production costs** /prəˈdʌkʃn kɒsts/ издержки производства

**production line** /prəˈdʌkʃn ˌlaɪn/ производственная линия

**productivity** /ˌprɒdʌkˈtɪvəti/ (*мж. labour productivity*) производительность (*труда*)

**profit** /ˈprɒfɪt/ прибыль

**progressive tax** /ˈprɒɡresɪv ˈtæks/ прогрессивный налог

**to provide services** /prəˈvaɪd ˈsɜːvɪsɪz/ предоставлять услуги

**public goods** /ˈpʌblɪk ˈɡʊdz/ общественные блага

**public spending** /ˈpʌblɪk ˈspendɪŋ/ госрасходы

**publishing company** /ˈpʌblɪʃɪŋ ˌkʌmpəni/

издательство

**pull (in demand)** /pʊl (ɪn dɪˈmɑːnd)/

увеличение (*спроса*)

**purchase** /ˈpɜːtʃəs/ покупка

**pure monopoly** /pjuə(r) məˈnɒpəli/ чистая

монополия

**pure public goods** /pjuə(r) ˌpʌblɪk ˌɡʊdz/

чистые общественные блага

**to put tariffs on smth** /put ˈtærɪfs ɒn ˌsʌmθɪŋ/

налагать тарифы на что-либо

## Q

**quota** /kwəʊtə/ квота

## R

**to ration goods** /ræʃn ɡʊdz/ распределять

товары (*по карточкам при дефиците*)

**raw materials** /rɔː məˈtɪəriəlz/ сырье

**recent study** /riːsnt ˈstʌdi/ недавнее

исследование

**recession** /riˈseʃn/ рецессия, сильный спад,

кризис

**recovery** /riˈkʌvəri/ оживление

**relationship** /riˈleɪʃnʃɪp/ взаимосвязь,

взаимоотношения

**relative** /relatɪv/ относительный

**repayment** /riˈpeɪmənt/ платеж (*по кредиту*),

погашение (*займа, долга*)

**replacement investment** /riˈpleɪsmənt

ɪnˈvestmənt/ капиталовложения, направляемые  
на возмещение

**research** /riˈsɜːtʃ/ исследование

**to restrict trade** /riˈstrikt ˈtreɪd/ ограничивать

торговлю

**retail price index** /riˈteɪl ˈpraɪs ˌɪndeks/ индекс

розничных цен

**retailer** /riˈteɪlə(r)/ розничная фирма,

розничный торговец

**return** /riˈtɜːn/ оборот; доход

**revenue** /revənjuː/ доход

**reward** /riˈwɔːd/ вознаграждение

**roller-coaster ride of boom and depres-**

**sion** /rəʊlə ˌkəʊstə ˈraɪd əv ˌbʊm ən dɪˈpreʃn/

головокружительная череда подъемов  
и спадов

**to run a business** /rʌn ə ˈbɪznəs/ руководить

бизнесом

## S

**safety net** /seɪfti ˌnet/ система стабильного

функционирования финансовой системы;

сетка безопасности (*система обеспечения  
экономической безопасности; в социальной  
области - это поддержание государством  
неимущих слоев, в финансовой сфере -  
обеспечение функционирования банковской  
системы*)

**sales** /seɪlz/ объем продаж

**saver** /seɪvə(r)/ вкладчик



**savings account** /ˈseɪvɪnz əˌkaʊnt/  
сберегательный счет

**savings** /ˈseɪvɪnz/ сбережения

**scale** /skeɪl/ масштаб

**scarcity** /skeəsəti/ нехватка, дефицит

**seasonal unemployment** /siːzənəl ʌnimˈplɔɪmənt/  
сезонная безработица (*связана с отсутствием/ненужностью какого-либо вида деятельности в определенное время года*)

**securities** /sɪˈkjʊərətiːz/ ценные бумаги

**security** /sɪˈkjʊərəti/ 1. гарантированность 2. гарантия, залог 3. защита, охрана

**serf** /sɜːf/ крепостной

**to set prices** /set ˈpraɪsɪz/ устанавливать цены

**share** /ʃeə/ доля (*напр. рынка*); акция

**shelter** /ʃeltə(r)/ кров

**shift in demand** /ʃɪft ɪn dɪˈmaɪnd/ изменение в спросе

**ship building** /ʃɪp ˌbɪldɪŋ/ судостроение

**shipyard** /ʃɪpˌjɑːd/ судостроительный завод

**shock therapy** /ʃɒk ˈθerəpi/ шоковая терапия

**short run** /ʃɔːt ˌrʌn/ краткосрочный

**shortage** /ʃɔːtɪdʒ/ дефицит

**to shrink** /ʃrɪŋk/ сокращаться

**skilled** /skɪld/ квалифицированный

**slump** /slʌmp/ спад

**social security benefit** /səʊʃl sɪˈkjʊərəti ˈbenəfɪt/  
пособие социального страхования

**stagflation** /stægˈfleɪʃn/ стагфляция  
(*экономический застой при одновременной инфляции*)

**stall owner** /stɔːl əʊnə(r)/ владелец торгового места на рынке

**stalls** /stɔːlz/ прилавки (*на рынке*); палатки

**staple goods** /steɪpl ˌɡʊdz/ основные продукты питания; товары первой необходимости

**state monopoly** /steɪt məˈnɒpəli/  
государственная монополия

**state run industries** /steɪt ˌrʌn ˈɪndəstriːz/  
государственные отрасли

**state run shop** /steɪt ˌrʌn ˈʃɒp/ государственный магазин

**state sector** /steɪt ˈsektə(r)/ государственный сектор

**to steer** /stiə(r)/ управлять

**sterling** /stɜːlɪŋ/ (*полн. pound sterling*) фунт стерлингов (*валюта Великобритании*)

**stock exchange** /stɒk ɪksˈtʃeɪndʒ/ фондовая биржа

**stock market** /stɒk ˌmɑːkɪt/ фондовый рынок

**stocks** /stɒks/ запасы; ценные бумаги

**storage** /stɔːrɪdʒ/ хранение

**structural unemployment** /ˌstrʌktʃərəl ʌnimˈplɔɪmənt/  
структурная безработица (*безработица среди рабочих некоторых профессий при наличии спроса на рабочих других профессий*)

**subsistence (level)** /səbˈsɪstəns ˌlevl/  
прожиточный минимум

**subsistence farming** /səb'ssɪstəns ˌfɑːmɪŋ/ (мж. subsistence agriculture) натуральное сельское хозяйство; примитивное сельское хозяйство

**substitute** /səbstɪtjuːt/ товар-аналог; заменитель

**substitution effect** /səbstɪ'tjuːʃn ɪfekt/ эффект замещения

**to suffer a devastating collapse** /səfə ɐˌdevəsteɪtɪŋ kə'læps/ претерпевать разрушительный крах

**suicide rate** /suːsaɪd ˌreɪt/ уровень самоубийств

**supermarket checkout** /suːpəˌmɑːkɪt ˈtʃekəʊt/ касса в магазине самообслуживания

**supplier** /səˈplaɪə(r)/ поставщик

**supply and demand pattern** /səˈplaɪ ən dɪˈmɑːnd ˌpætən/ модель взаимодействия спроса и предложения

**to supply smb with smth** /səˈplaɪ wɪθ/ снабжать кого-либо чем-либо

**supply** /səˈplaɪ/ предложение

**supply-side shock** /səˈplaɪ saɪd ˈʃɒk/ потрясение, вызванное со стороны предложения

**surplus** /ˈsɜːpləs/ избыток, излишек

**survey** /sɜːveɪ/ обзор, исследование

**sustained economic growth** /səˌsteɪnd ɪkəˈnɒmɪk ˈgrəʊθ/ устойчивый экономический рост

**to swap** /swɒp/ менять, обмениваться(ся)

## T

**to take into account** /ˌteɪk ɪntuː əˈkaʊnt/ принимать во внимание

**to take on staff** /ˌteɪk ɒn ˈstɑːf/ брать на работу персонал

**takeover** /ˌteɪkəʊvə(r)/ поглощение одной компанией другой компании

**target** /tɑːɡɪt/ цель, целевой ориентир

**tax payer** /tæks peɪə(r)/ налогоплательщик

**taxation** /tæks'eɪʃn/ налогообложение

**temporary** /tempərəri/ временный

**tied aid** /taɪd eɪd/ обусловленная помощь (помощь, связанная с выполнением каких-либо условий помогающей стороны)

**timber** /ˈtɪmbə(r)/ древесина

**time lag** /taɪm læɡ/ временной лаг, задержка во времени между событием и следствием

**time-series analysis** /taɪm ˌsɪəriːz əˈnæləsɪs/ анализ временных рядов

**tool** /tuːl/ инструмент

**trade balance** /treɪd bæləns/ торговый баланс

**trade cycle** /treɪd saɪkl/ промышленный цикл

**trade deficit** /treɪd ˌdefɪsɪt/ дефицит торгового баланса

**trade surplus** /treɪd ˈsɜːpləs/ положительное сальдо торгового баланса

**trade-off** /treɪd ɒf/ обмен; компромисс; уступка

**trader** /treɪdə(r)/ трейдер; торговец; биржевой спекулянт

**trading partnership** /ˌtreɪdɪŋ ˈpɑːtnəʃɪp/ сотрудничество в области торговли

**transaction** /trænˈzækʃn/ сделка, деловая операция

**to transfer money** /trænsfɜː 'mʌni/ переводить деньги

**transfer payments** /trænsfɜː(r) 'peɪmənts/ трансфертные платежи (*выплаты населению по программам социального страхования, а также выплата процентов владельцам государственных обязательств*)

**transport cost** /træns'pɔːt ,kɒst/ издержки на транспортировку

**transport department** /træns'pɔːt dɪ'pɑːtmənt/ министерство транспорта

**trend** /trend/ тенденция

**tribal** /traɪbl/ племенной

**tribe** /traɪb/ племя

**turnover** /tɜːnəʊvə(r)/ оборот

## U

**unemployment benefit** /ʌnɪm'plɔɪmənt 'benəfɪt/ пособие по безработице

**unfair** /ʌn'feə(r)/ несправедливый

**unit of account** /juːnɪt əv ə'kaʊnt/ расчетная денежная единица

**unjust** /ʌn'dʒʌst/ несправедливый

**utility** /juː'tɪləti/ полезность

## V

**value** /væljuː/ стоимость, ценность

**value added tax** /væljuː 'ædɪd tæks/ (*сокращенно VAT*) – налог на добавленную стоимость (*НДС*)

**variable** /veəriəbl/ переменная (*величина*)

**variable costs** /veəriəbl 'kɒsts/ переменные издержки (*издержки, общая величина которых возрастает или уменьшается, когда возрастает или уменьшается объем выпуска фирмы*)

**vertical axis** /vɜːtɪkl 'æksɪs/ вертикальная ось

**vertical takeover** /vɜːtɪkl 'teɪkəʊvə(r)/ вертикальное поглощение

## W

**wage rate** /weɪdʒ reɪt/ ставка заработной платы

**warehouse** /weəhaʊs/ склад

**watermark** /wɔːtə'mɑːk/ водяной знак

**wealthy** /welθi/ богатый, состоятельный

**to weight** /weɪt/ *непер.* придавать значимость, вес

**welfare economics** /welfeər ɪ:kə'nɒmɪks/ экономика благосостояния

**welfare** /welfeə(r)/ благосостояние

**wholesaler** /həʊlseɪlə(r)/ оптовая фирма, оптовый торговец

**to win a share of the market** /wɪn ə ,ʃeə əv ðə 'mɑːkɪt/ получить долю рынка

**withdrawal** /wɪð'drɔːəl/ изъятие вклада (*из банка*)

**workforce** /wɜːkfoːs/ рабочая сила

**working age** /wɜːkɪŋ ,eɪdʒ/ трудоспособный возраст

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